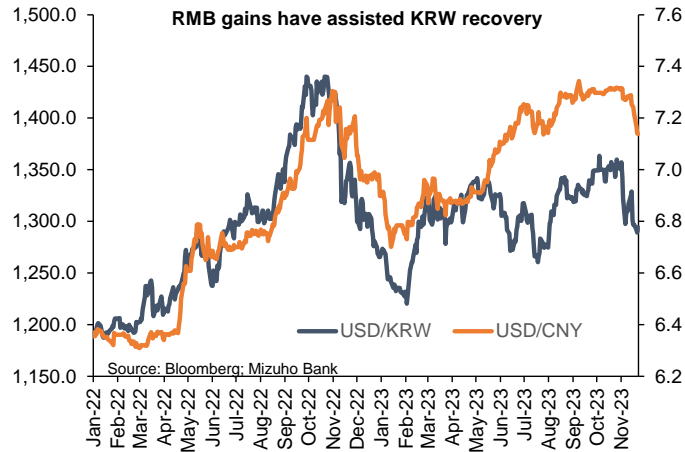
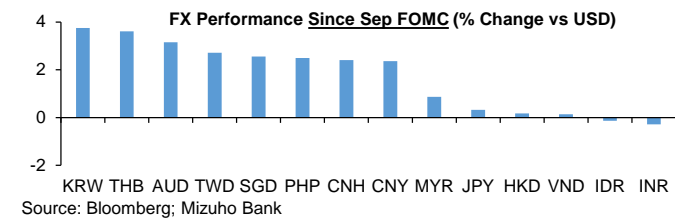


KRW: Waiting for Dawn?

China's Assistance



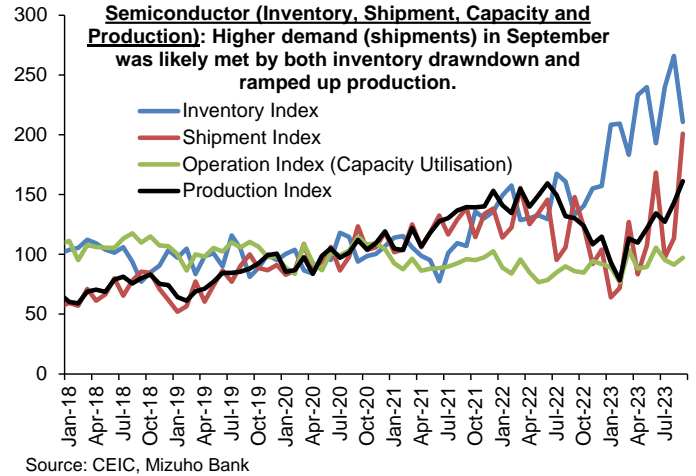
Amid the broad USD weakening, KRW's stellar gains in November thus far is certainly captivating. This has certainly been in part riding on gains in the CNY/CNH complex. As such, **further near term KRW appreciation** on CNH gains has to be examined **via the broader China backdrop**. We retain the view that while current measures such as the White List provides credit support, the bar to lift the property sector is a high one which requires a more coordinated suite of measures with targeted pump-priming a minimum to alleviate operating cash flow constraints. (See [Mizuho Flash: China Property: White List, Not Knight](#)). As such, **KRW's near term rally may look stretched** barring pivotal announcements of policy measures during CEWC in late 2023.



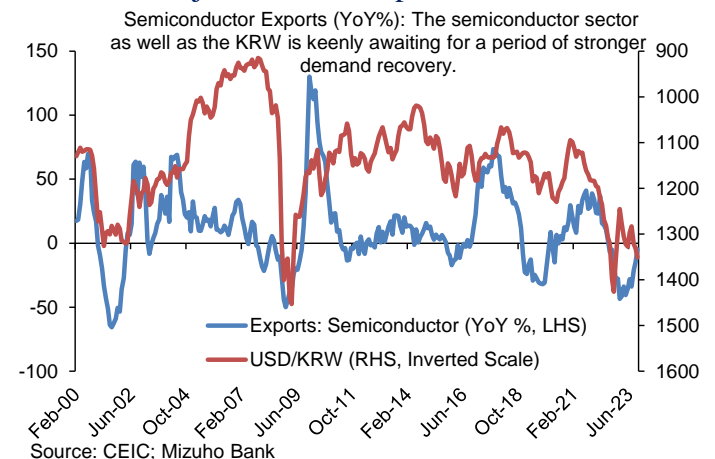
Nonetheless, **KRW's outperformance** since September FOMC among regional peers also implies **factors beyond just riding on the CNH/CNY gains**.

Semiconductor's Turn

First, **persistent uptick in semiconductor production point** to a turnaround of the semi-conductor cycle, albeit at subdued pace.

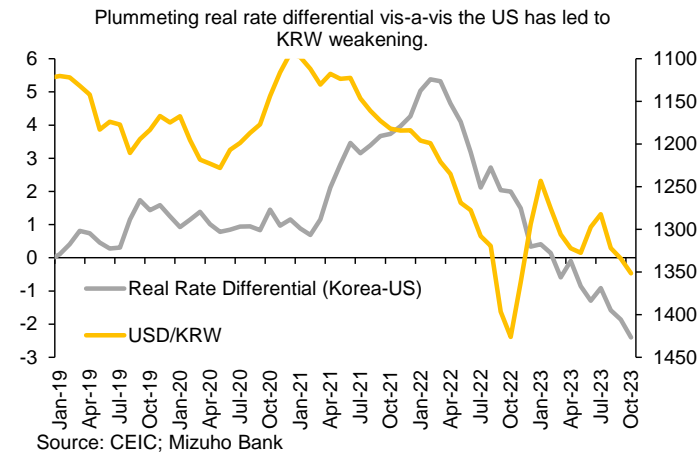


It is rather clear that **growth of production is being held back by elevated inventory levels** even after considering September's sharp drawdown. As such, further inventory drawdown may consequently allow a faster pick-up in recovery in 2024. That said, the major swing factor will be the geo-politics as a stark deterioration of US-China relations may see re-imposition of **export restrictions** (involving chip making equipment with US components) which was waived for major Korean companies last month.

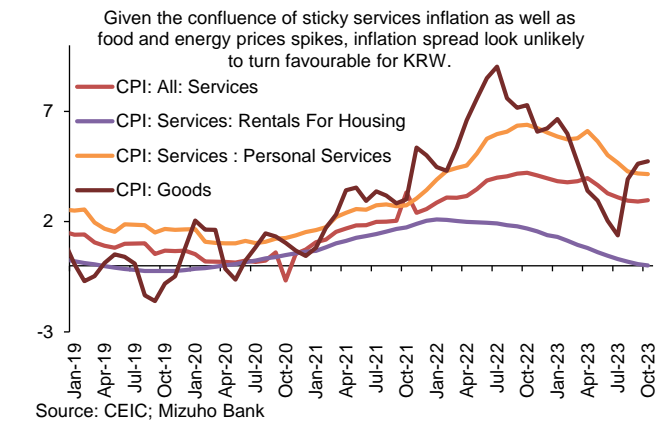


A more discernible KRW recovery will hinge on the pace of semiconductor upturn which may resemble the moderate 2013/14 recovery given the tight monetary environment rather than a return to the pandemic induced electronics demand type of acceleration or the 2016 super cycle which was driven by broad demand from electronics, autos, industrial equipment and the beginning of cloud computing.

Real Policy Support?

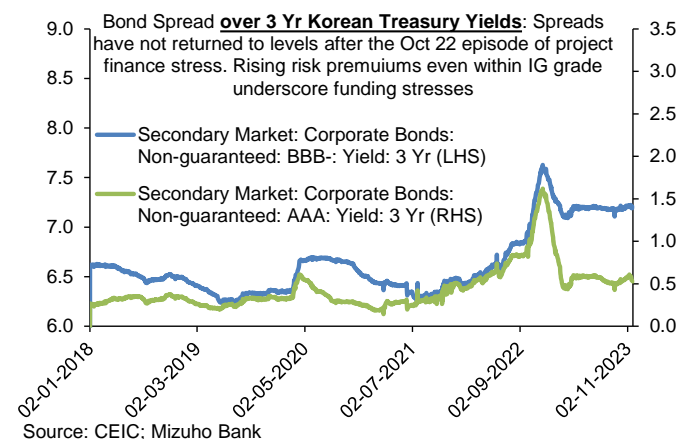


Meanwhile, from the rates perspective, KRW bulls are relying on confirmation of Fed easing rather than BoK’s policy actions for assistance. Given the substantial real rate difference of 240bps, it is **not foreseeable for the BoK to raise nominal policy rates to bring back the positive spread observed in pre-Covid times.**

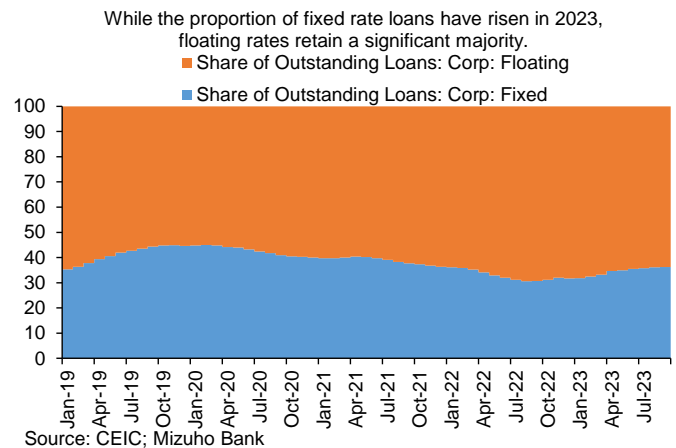


In the same vein, **inflation spreads are also unlikely to embark a favourable run for the KRW.** In fact, given the relative energy and food dependence, headline inflation is more likely to remain sticky in Korea. Furthermore, a **tight labour market with low unemployment rate also underpins sticky services inflation.**

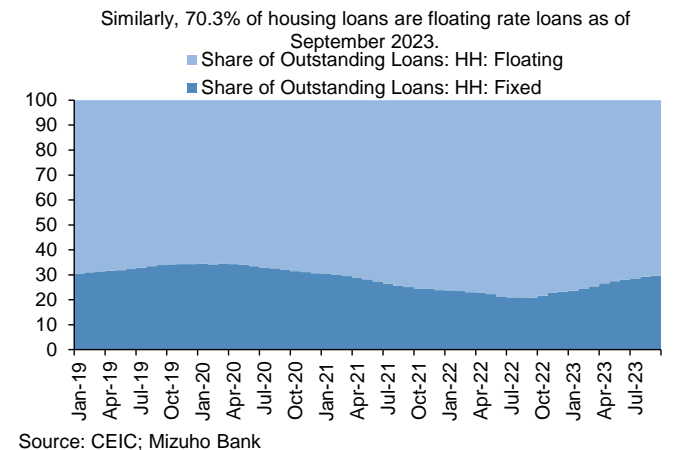
Unresolved Funding Stresses



The financial, real estate and construction sector remains in need of alleviating underlying risks in order to prevent capital flight which worsen KRW prospects. First, while the initial spike in spreads from the October 2022 property developer default debacle have partially reverted, it is notable that significant risk repricing has taken place as spreads even within IG grade corporate bonds widen and even beyond pre-pandemic differentials. Put simply, while government assistance programs stemmed financial contagion, markets have taken note of the evolution of the underlying cash flow and corporate balance sheet risks amid a tight monetary policy environment.



In addition, while elevated rates have nudged up borrowers towards fixed rate loans, a significant majority of both corporate and household loans are subject to floating rates and continue to bear the burden of higher financing costs.



All in, semi-conductor bottoming amid USD weakness had afforded room for KRW recovery thus far in Q4. Further impetus for KRW bulls remains in low visibility as financial stability concerns and real rate spreads remain unfavourable. Afterall, it is often darkest before dawn.

FX Forecasts	Dec 23	Mar 24	Jun 24	Sep 24	Dec 24	Mar 25
USD/KRW	1240 - 1370 (1305)	1270 - 1400 (1310)	1220 - 1410 (1325)	1180 - 1350 (1280)	1180 - 1310 (1240)	1170 - 1320 (1220)

Important Information

This publication has been prepared by Mizuho Bank, Ltd. (“Mizuho”) and represents the views of the author. It has not been prepared by an independent research department and it has not been prepared in accordance with legal requirements in any country or jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Disclaimer

Unless otherwise stated, all views or opinions herein are solely those of the author(s) as of the date of this publication and are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient, and are subject to change without notice. This publication has been prepared by Mizuho solely from publicly available information. Information contained herein and the data underlying it have been obtained from, or based upon, sources believed by us to be reliable, but no assurance can be given that the information, data or any computations based thereon are accurate or complete. This publication provides general background information only. It is information in summary form and does not purport to be complete. This publication has been prepared for information purposes only and is not intended by Mizuho or its affiliates to constitute investment, legal, accounting, tax or other advice of any kind and all recipients of this publication are advised to contact independent advisors in order to evaluate the publication, including, without limitation, the suitability of any security, commodity, futures contract or instrument or related derivative (hereinafter, a “financial instrument”), product or strategy herein described. This publication is not intended to be relied upon as advice to investors or potential investors and does not take into account investment objectives, financial situation or needs of any particular investor. It is not intended for persons who are Retail Clients within the meaning of the United Kingdom’s Financial Conduct Authority rules nor for persons who are restricted in accordance with US, Japanese, Singapore or any other applicable securities laws.

This publication has been prepared for information purposes only and is not intended by Mizuho to market any financial instrument, product or service or serve as a recommendation to take or refrain from taking any particular course of action or participate in any trading or other strategy. This publication is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or any of the assets, businesses or undertakings described herein, or any other financial instrument, nor is it an offer to participate in any trading or other strategy, nor a disclosure document under applicable laws, rules, regulations or guidelines. Nothing contained herein is in any way intended by Mizuho or its affiliates to offer, solicit and/or market any financial instrument, product or service, or to act as any inducement to enter into any contract or commitment whatsoever. Neither the author, Mizuho nor any affiliate accepts any liability whatsoever with respect to the use of this publication or its contents or for any errors or omissions herein.

Mizuho and its affiliates, connected companies, employees or clients may take the other side of any order by you, enter into transactions contrary to any recommendations contained herein or have positions or make markets or act as principal or agent in transactions in any securities mentioned herein or derivative transactions relating thereto or perform or seek financial or advisory services for the issuers of those securities or financial instruments.

All of the information contained in this publication is subject to further modification without prior notice and any and all opinions, forecasts, projections or forward-looking statements contained herein shall not be relied upon as facts nor relied upon as any indication of future results. Opinions stated in this publication are subject to change without notice. Future results may materially vary from such opinions, forecasts, projections or forward-looking statements. The information contained in this publication may not be current due to, among other things, changes in the financial markets or economic environment. Mizuho has no obligation to update any information contained in this publication. Past performance is not indicative of future performance.

This is a strictly privileged and confidential publication. This publication contains information addressed only to a specific individual and is not intended for distribution to, or use by, any person other than the named addressee or any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Save with Mizuho’s prior written consent, you may not disclose, divulge, reproduce or furnish any information contained herein to any other party. Please notify the sender immediately if you have mistakenly received this publication.

Singapore: Mizuho is licensed as a bank under the Banking Act (Chapter 19) of Singapore, and is regulated by the Monetary Authority of Singapore.

Japan: Mizuho is authorised and regulated by the Financial Services Agency of Japan.

United Kingdom / European Economic Area: In the UK, Mizuho is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MHBK’s regulation by the Prudential Regulation Authority are available upon request. This publication may also be distributed by Mizuho International plc (“MHI”). MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

United States: This publication is not a “research report” as defined in Commodity Futures Trading Commission (“CFTC”) Regulations 1.71 and 23.605. The content of publications distributed by Mizuho Securities USA Inc. (“MSUSA”) is the responsibility of MSUSA. The content of publications distributed directly to US customers by Mizuho is the responsibility of Mizuho. US investors must effect any order for a security that is the subject of this report through MSUSA.

© 2014 Mizuho Bank Ltd