

EM Alpha

Closing short SGD KRW

We close short SGD KRW on the back of the US rates rally

In [GEMs FI & FX Strategy Watch: Short SGD/KRW 20 September 2023](#), we entered into a short SGD KRW (current: 969, entry: 974, target: 945; stop: 990) trade. With the aggressive risk-on rally following the November FOMC spurred by the flattening of the US curve, we close this position.

Despite the strong performance of the Korean Won versus the US Dollar in the past two trading days, we remain cautious and neutral on the overall direction of the Korean won. In [The EM Asia FX Strategist: Yielding to the dollar 26 October 2023](#), we revised upwards our USD KRW forecast for 4Q23 to 1375 and 1380 by 1Q14. We retain a base case of an overall path of increase for USD KRW for reasons stated below but note the downside risk given the current rally.

Firstly, our G10 FX team retains a base case for EUR USD at 1.05 by 4Q23 while our US Economics team retains an out-of-consensus call for a 25bps hike in the December FOMC. Furthermore, our US Economics team also has a higher-than-consensus print for NFP at 230k versus the Bloomberg consensus at 180K. These factors lead us to believe it is not time for a significant downturn in the USD – yet.

Secondly, we recently revised our USDCNY forecast higher to 7.70 by 1Q24. Any significant sell-off in the RMB will spill over into Korea as well, resulting in higher USD KRW. Recently, Korean exports have been on an upward trend based on recovery in the export of semiconductors and stabilization in China's economic downturn (see: [Korea Watch: Oct Trade: A long-awaited turnaround in exports growth 01 November 2023](#)). However, with the geopolitical situation in the Middle East uncertain, we would take a more cautious stance on Korea's terms-of-trade and maintain our neutral stance on the Korean won.

Moreover, a major reason for the current risk-on environment in Korea is strongly tied to the flattening of US real rates. Bull-flattening in US real rates is very supportive of high beta and high duration assets which occupies a large share of the KOSPI Index and explains the strong correlation between the KOSPI and the shape of the US real rates curve (**Exhibit 1**).

Lastly, the latest issuance plan for US Treasuries has the Treasury relying more on bills rather than coupon issuance due to concerns around large deficit funding putting outsized pressure on the belly and tail of the US curve. The reduction in upcoming coupon supply is likely a major contributor in the flattening in US real curve, resulting in the risk-on rally of higher beta assets and inflows into Korea equities (**Exhibit 2**). With the near-term issuance schedule published, we take advantage of the rally in US rates and its associated impact on the Korean Won.

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GEM FI & FX Strategy
Emerging Markets Global

Chun Him Cheung, CFA
Emerging Asia FI/FX Strategist
Merrill Lynch (Hong Kong)
+852 3508 3644
chunhim.cheung@bofa.com

Claudio Piron
Emerging Asia FI/FX Strategist
Merrill Lynch (Singapore)
claudio.piron@bofa.com

For a complete list of our open trade recommendations, as well as our trade recommendations closed over the last 12 months, please see: [Global Emerging Markets Weekly: Crossover malaise for EM debt 02 November 2023](#)

NFP – nonfarm payroll

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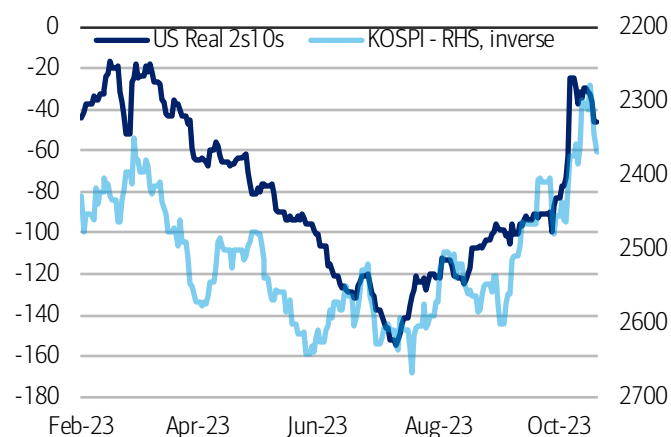
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Exhibit 1: US real 2s10s and the KOSPI

The shape of the US real rates curve has a significant impact on KOSPI valuation

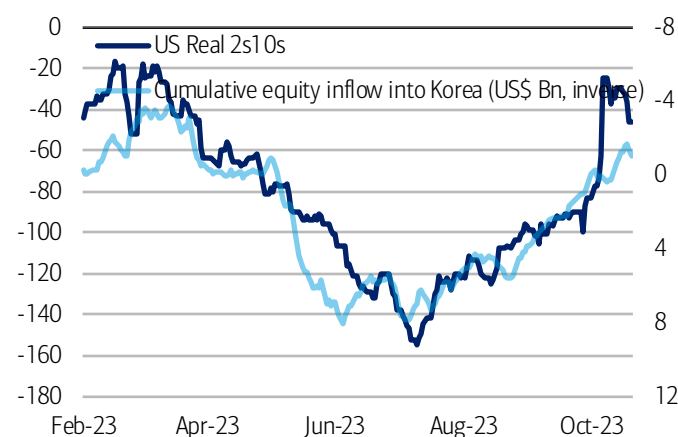


Source: Bloomberg

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Exhibit 2: US real 2s10s and the KOSPI

Historically, flattening in the US real rate curve has attracted inflows into Korean equities



Source: Bloomberg

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