

Asia FI & FX Strategy Watch

Korea Financial Flows – November 2023

Korean equity inflows rebound as US rates rally

Throughout October 2023, Korean equities saw strong net foreign outflows (-US\$2bn), due to aggressive bear steepening of the US rates curve. Higher US rates and net equity outflows resulted in US\$ buying and USDKRW was pushed to a year-to-date high of 1,360. The weaker data released in late-October/ early November and the more benign US Treasury issuance schedule eased the immediate pressure on Korean equity valuation and resulted in November's month-to-date inflow at +US\$1.5bn.

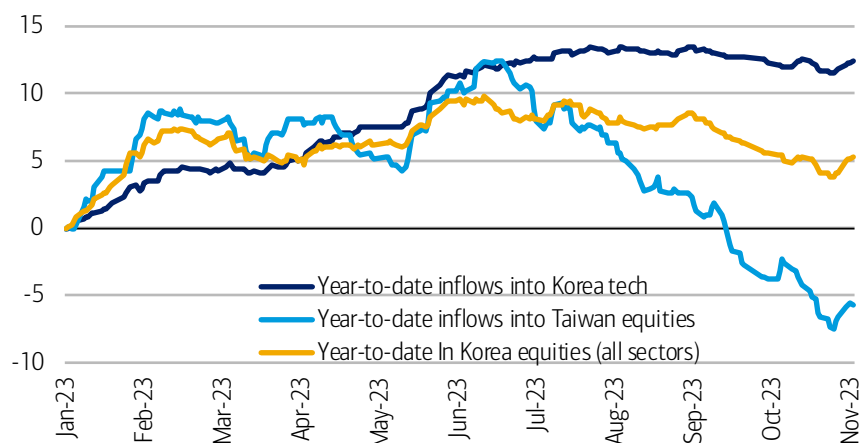
End of the Fed cycle is a risk to our USDKRW forecast

In [Global FX weekly: Turning point 10 November 2023](#), our G10 FX team noted that this may be the turning point for USD, as the cumulative trends point to weaker US data and a Fed that is increasingly comfortable to signal for a pause. However, G10 FX team has warned that the end of USD strength would be choppy, especially in Asia as the Chinese economy remains on a weak footing. Our current forecast has USDKRW for end-2023 at 1,375. Given the recent USDKRW drop, this forecast now looks too high.

Secondly, net equity flow into Korean electronics has remained more robust relative to its Taiwanese counterparts. The rebound in Korea exports, led by stronger external demand for electronics, will be supportive for the Korean Won from both a current account and portfolio flow perspective. We see outperformance of the Korean Won versus other Asian currencies in 2024.

Exhibit 1: Net inflows into Korea and Taiwanese equities (Year-to-date, US\$ Bn)

Since July, net equity flows into Korea electronics have been more robust than its Taiwanese counterparts



Source: Bloomberg

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14 November 2023

GEM FI & FX Strategy
Asia

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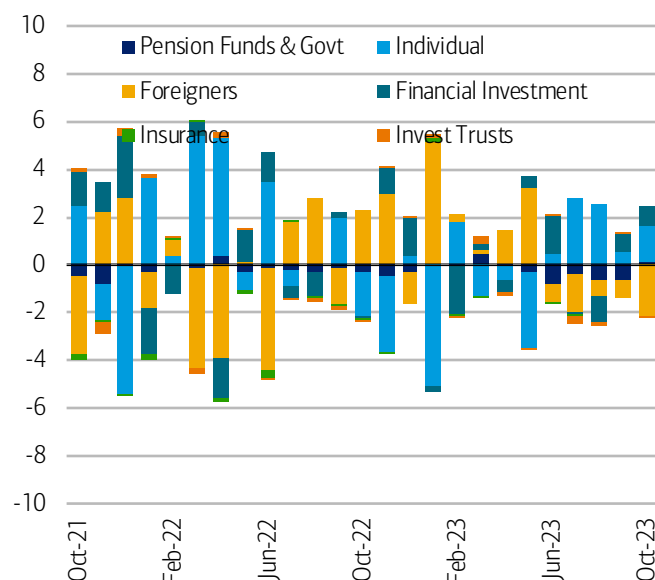
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Korea Financial Flow – November 2023

Section 1: Net buying/selling of Korean equities

Exhibit 2: By entity (monthly, US\$bn)

Foreign investors in the Korean equity market net sold in October 2023...

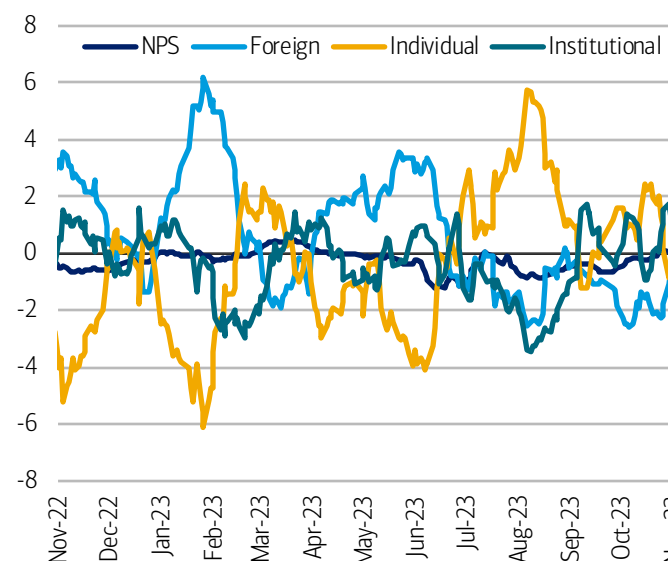


Source: Bloomberg, BofA Global Research

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Exhibit 3: By entity (daily, 21-day sum, US\$bn)

... before rebounding in November 2023 as the US rates rallied.

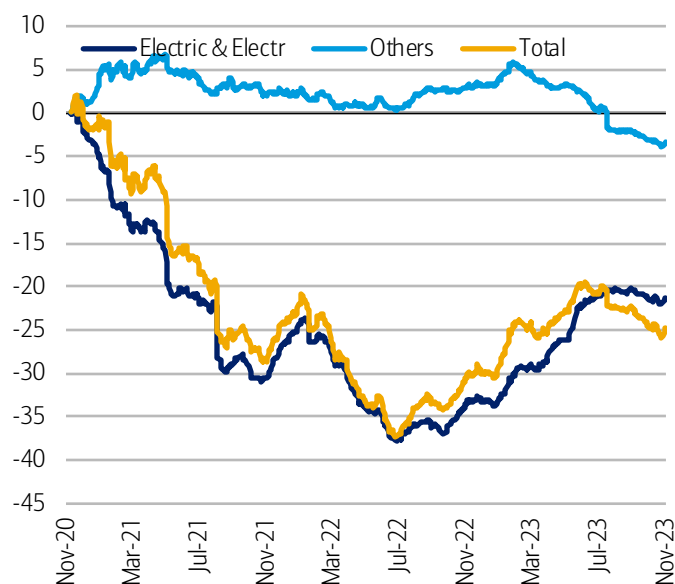


Source: Bloomberg, BofA Global Research

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Exhibit 4: Net FINI inflows (US\$ Bn, Nov 2020 = 0)

The net outflows from electronics sector have been slower than in the non-electronics sector

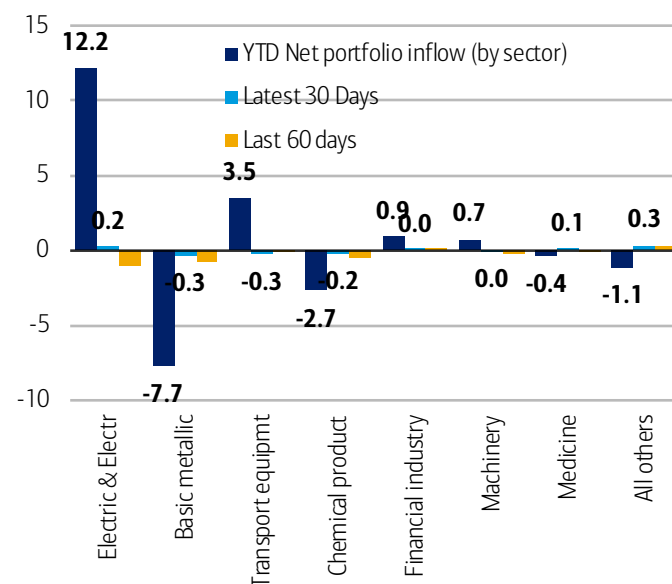


Source: Bloomberg, BofA Global Research

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Exhibit 5: Year-to-date FINI inflows by sector (US\$ Bn)

Year-to-date, foreign investors have net invested US\$12.2bn into Korean electronic names



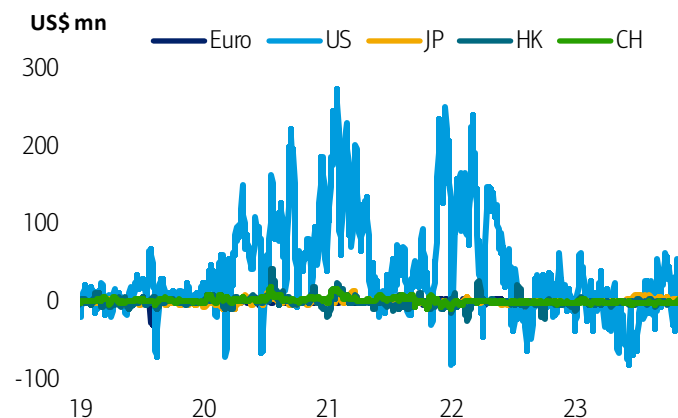
Source: Bloomberg, BofA Global Research

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Section 2: Foreign activities of Korea retail investors

Exhibit 6: Geography of foreign equity investment (daily, 7dma, US\$mn)

Korean retail interest in US stocks has rebounded starting in August

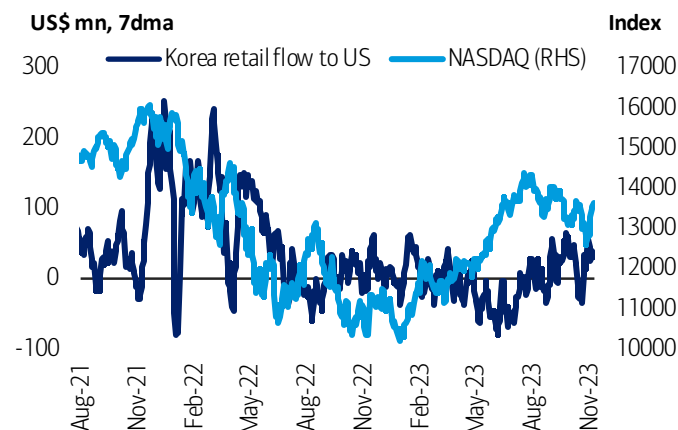


Source: SeiBro, BofA Global Research

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Exhibit 7: Korea retail flow to US (US\$ mn) and NASDAQ Index

Korean retail investors' net flow appears to flag the NASDAQ

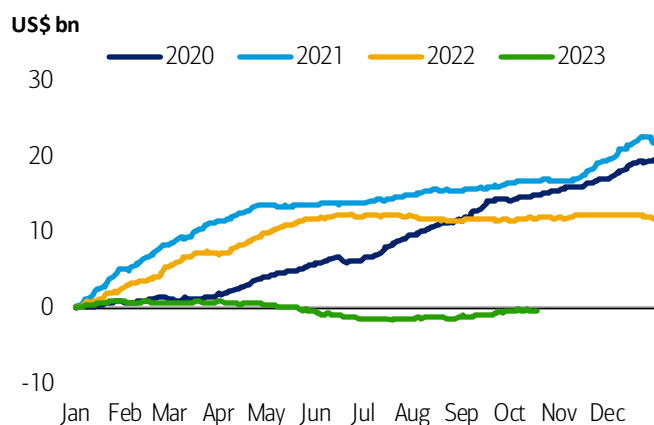


Source: SeiBro, Bloomberg, BofA Global Research

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Exhibit 8: YTD outflows by Korean retail investors (US\$bn)

Year-to-date, net retail outflows in 2023 have remained negative, as of November 2023



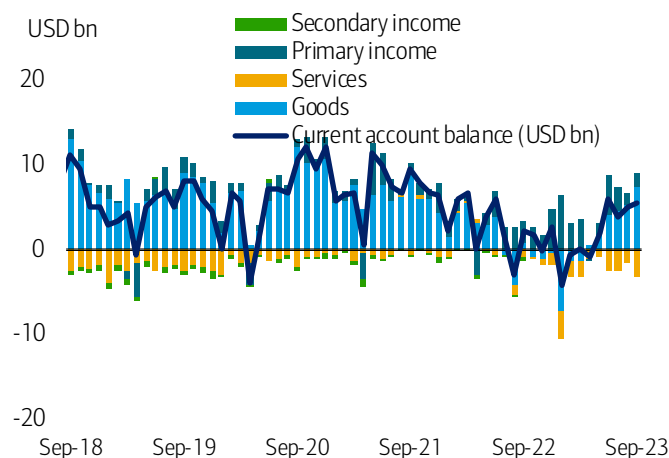
Source: SeiBro, BofA Global Research

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Section 3: Current account balance

Exhibit 9: Current account balance

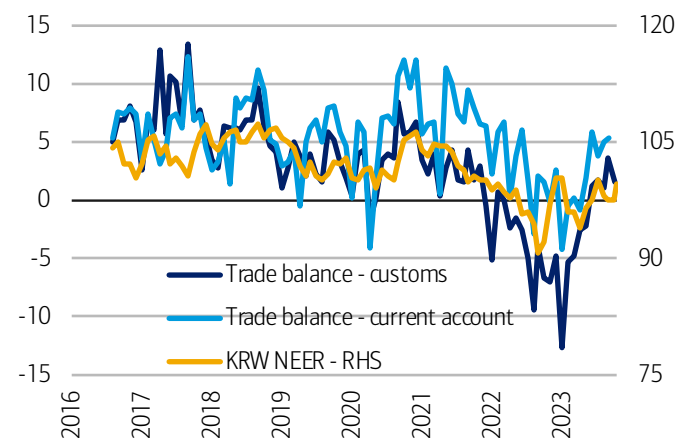
By September 2023, Korea's current account has significantly turned positive led by a rising goods balance



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Exhibit 11: Relationship between Korea's trade balance (US\$ Bn) and KRW NEER

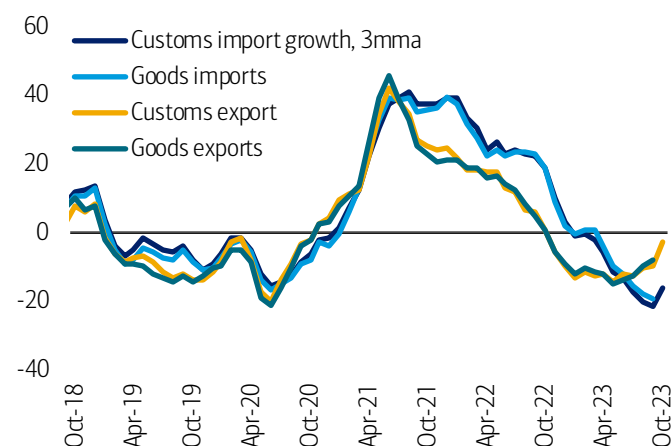
The KRW NEER displays a strong relationship with the trade balance



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Exhibit 10: Goods account and customs trade growth (y/y %)

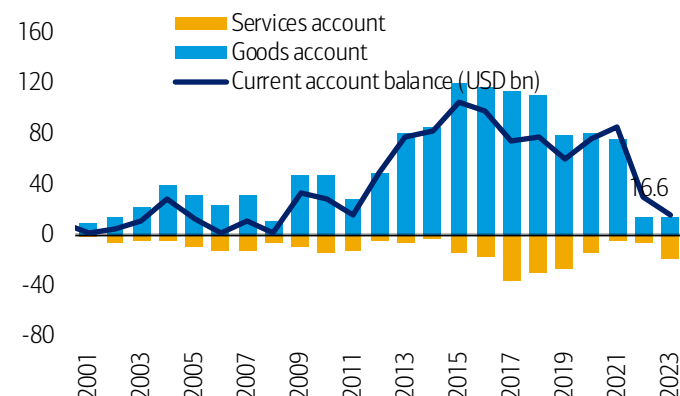
Goods exports are showing signs of recovery



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Exhibit 12: Historical current account balance

Year-to-date 2023, Korea's current account balance has turned positive

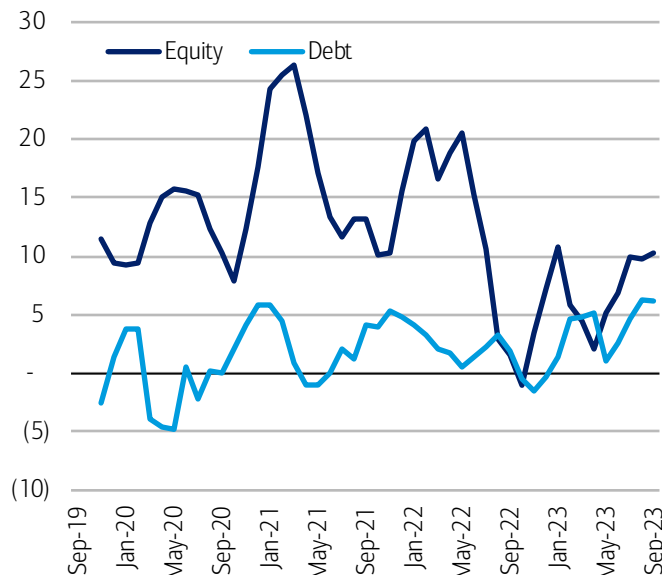


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Section 4: Portfolio outflows from Korea

Exhibit 13: Korean acquisition of foreign assets (3m sum, US\$bn)

Korean acquisition of foreign assets accelerated in the past three months, led by acquisition of foreign equities

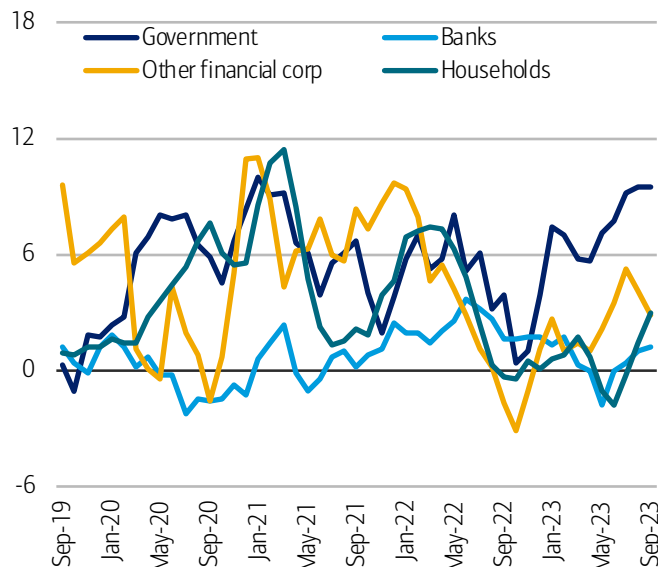


Source: Haver Analytics, BofA Global Research

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Exhibit 14: Korean investment abroad: by entity (3m sum, US\$bn)

In June 2023, the NPS (government) was the largest Korean buyer of foreign assets

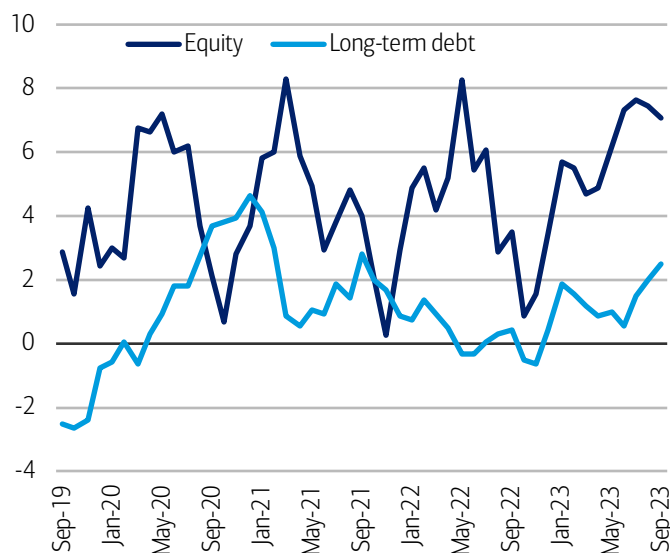


Source: Haver Analytics, BofA Global Research

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Exhibit 15: Overseas investment by NPS (3m sum, US\$bn)

The NPS purchase of foreign equity has accelerated since September 2022

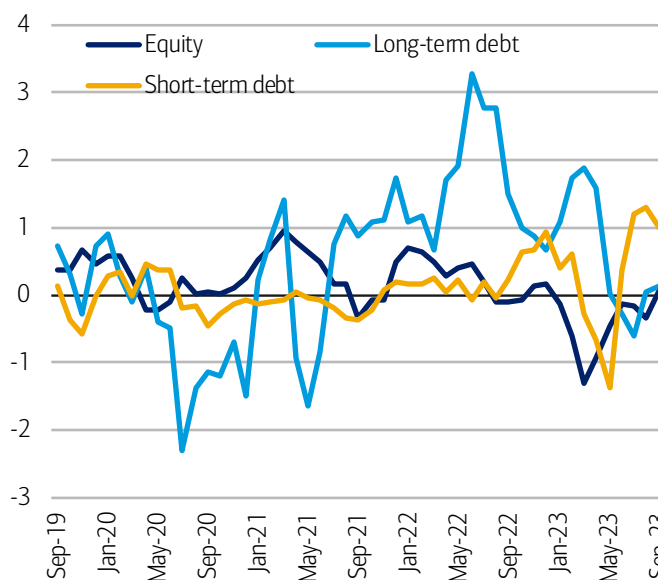


Source: Haver Analytics, BofA Global Research

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Exhibit 16: Overseas investment by Korean banks (3m sum, US\$bn)

Korean banks' purchase of foreign securities is small, led by acquisition of short-term debt

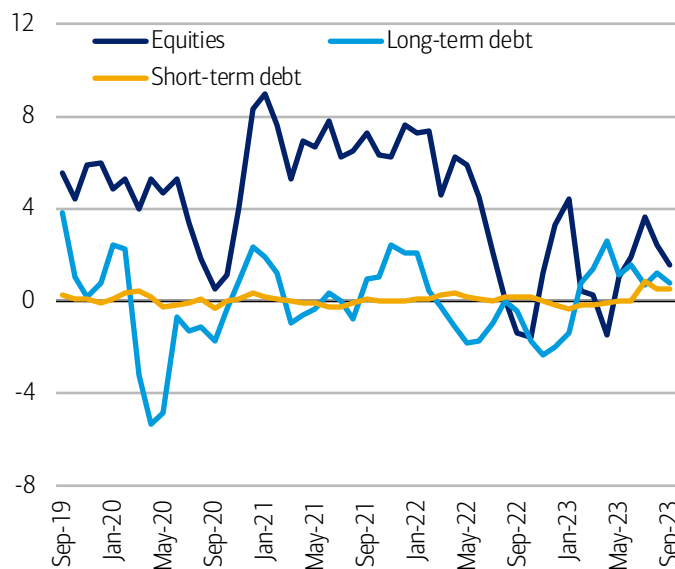


Source: Haver Analytics, BofA Global Research

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Exhibit 17: Overseas investment by Korean Other Financial Corporations/OFCs (3m sum, US\$bn)

Korean OFCs purchase of foreign securities remains weak with decline across all asset class

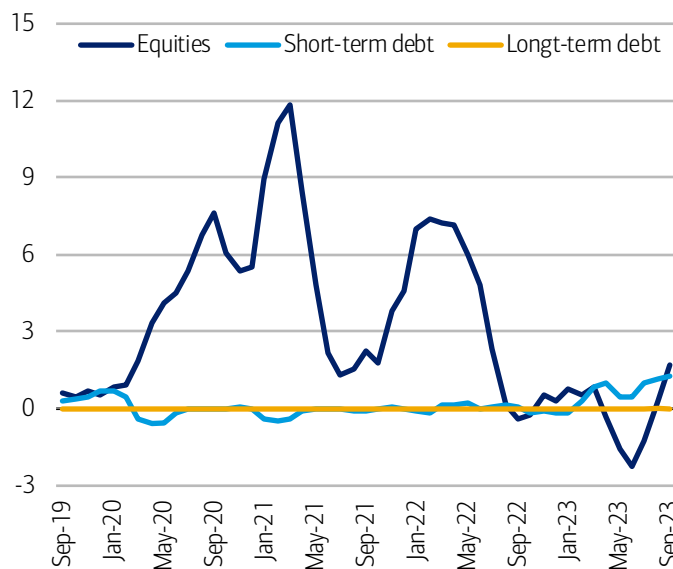


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Exhibit 18: Overseas investment by Korean households (3m sum, US\$bn)

Korean households purchase of foreign equity turned positive in September 2023



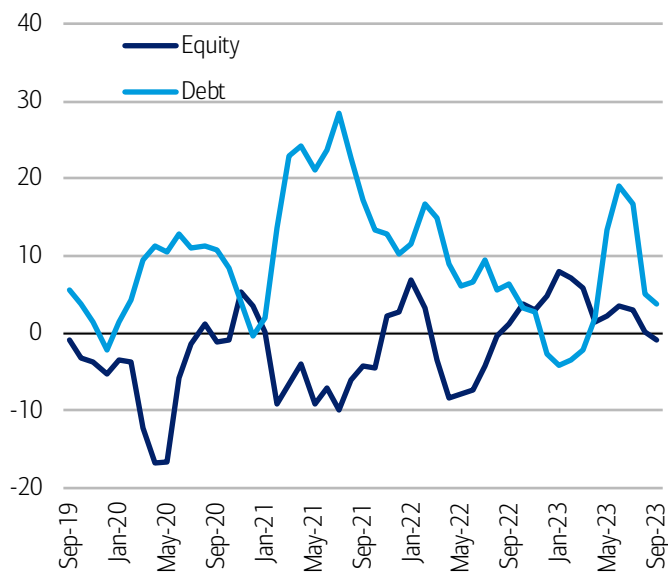
Source: Haver Analytics, BofA Global Research

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Section 5: Portfolio inflows to Korea

Exhibit 19: Foreign portfolio investment into Korea (3m sum, US\$bn)

Foreign interest in Korean debt declined from June to September 2023

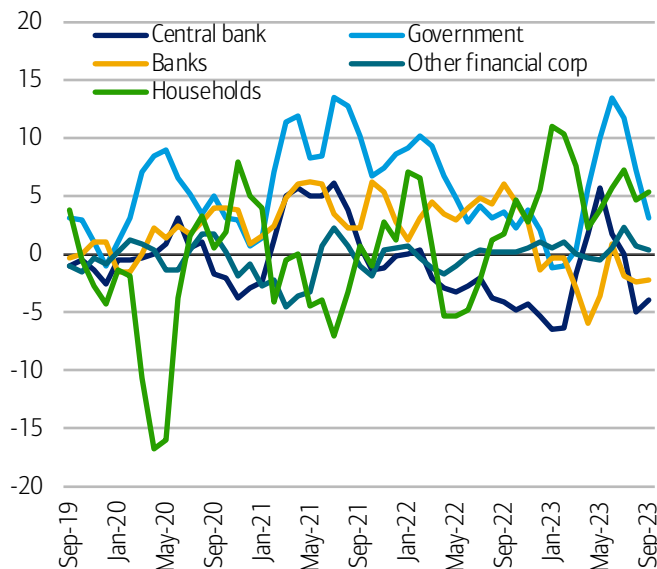


Source: Haver Analytics, BofA Global Research

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Exhibit 20: Foreign portfolio investment by entity (3m sum, US\$bn)

Foreign interest in Korean assets saw all-around decline in the three months leading to September 2023



Source: Haver Analytics, BofA Global Research

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Exhibit 21: Inflow into Korean bonds

Foreign bond inflow into Korean debt slowed after July 2023

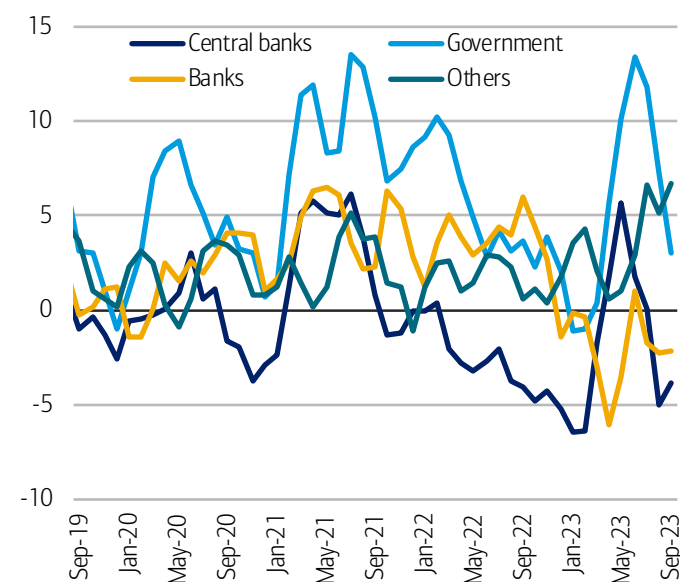


Source: Bloomberg, BofA Global Research

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Exhibit 22: Foreign net purchase of Korean debt (3m sum, US\$Bn)

Interest in Korean debt by foreign governments and central banks sharply declined in the three months leading to September 2023



Source: Bloomberg, BofA Global Research

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Section 6: NPS - Target vs. realized weights by asset class**Exhibit 23: NPS: target weights vs. actual**

The NPS' share in global equities remains low and below its strategic target

2025 Medium Term Target 15% 35% 25% 10% 15%

	Domestic Equities	Global equities	Dom FI	Global FI	Alt
Aug-23	14.3%	30.5%	31.9%	7.2%	16.1%
Jul-23	15.0%	30.2%	32.2%	7.0%	15.7%
Jun-23	14.6%	29.8%	32.5%	7.1%	16.0%
May-23	14.9%	29.0%	32.9%	7.3%	16.0%
Apr-23	14.5%	28.9%	33.2%	7.3%	16.1%
Mar-23	14.8%	28.1%	33.8%	7.2%	16.1%
Feb-23	14.6%	28.3%	33.6%	7.2%	16.3%
Jan-23	14.9%	27.5%	34.9%	6.9%	15.8%

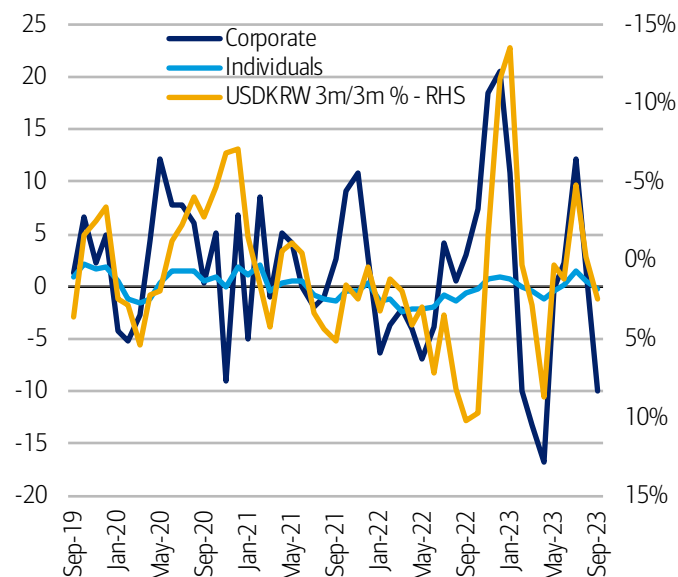
Source: Haver Analytics, BofA Global Research

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Section 7: Foreign currency deposits

Exhibit 24: FX deposits (3m change, US\$ bn)

The accumulation of FX deposits by Korean corporates tend to track the movement of USDKRW

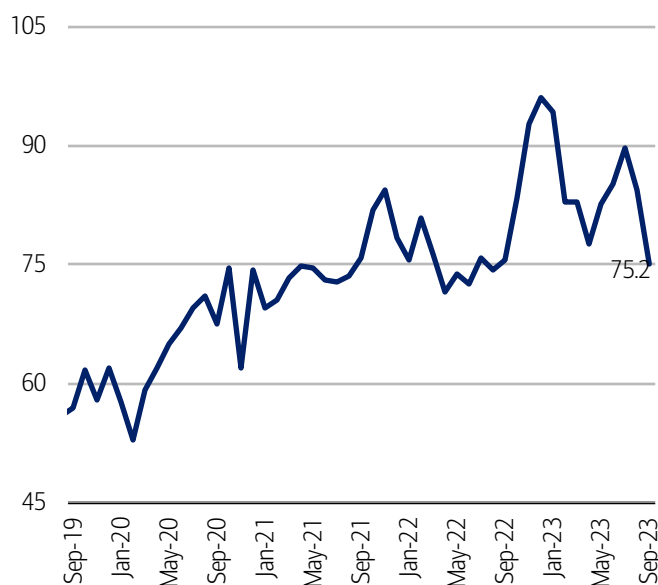


Source: Bloomberg, BofA Global Research

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Exhibit 25: Corporate FX deposits (US\$ bn)

Korean corporate FX deposits rose to US\$75.2bn in September 2023



Source: Bloomberg, BofA Global Research

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