

## Asia FI &amp; FX Strategy Watch

## Korea Financial Flows – March 2024

**Initial phase of Corporate Value-Up is over**

Since the announcement of the Corporate Value-Up, net inflow into Korean equities rose by close to US\$7bn versus the year-to-date figure of US\$8.5bn. Judging from the recent pattern of new equity inflows, the initial offshore enthusiasm over Corporate Value-Up is largely finished (**Exhibit 1**).

To further encourage inflows, practical steps from Korean corporates and regulators need to be taken. According to the *Bloomberg Media*, the Korean government is considering reducing dividend income tax to further incentivize increased dividends payout and higher share prices. Such steps can further increase enthusiasm on KOSPI, attracting additional inflows.

**NPS bought US\$3.2bn in foreign assets in Jan-2024**

The January 2024 BoP data shows the NPS increased its foreign claims by US\$3.2bn, which represents the third-straight month of acceleration in buying foreign assets. In the same month, net equity inflow was US\$2.3bn, resulting in the NPS to more than entirely offset the US\$ selling by foreign investors and contributing to USDKRW to rise by 2.6% throughout the month.

Over 2024, we expect the NPS's structural demand for US\$ to remain strong. It is difficult to assess the total US\$ needs of the NPS as much of that will depend on the relative performance of the KOSPI versus the MSCI World. However, given the end-2024 target portfolio the NPS has provided, the largest source of underweight remains global equities (at 31% versus target of 33%), while the largest overweight is domestic fixed income (at 31.6% versus 29.4%) and alternatives (at 15.9% versus 13.8%).

If the reform momentum behind Corporate Value-Up continues, it is likely to lead to a higher weight in domestic equities that will result in more US\$ buying as the NPS is pushed to rebalance. As such, we believe the total US\$ demand by the NPS in 2024 will reach nearly US\$35bn. In 2023, total US\$ demand by the NPS came in at US\$31bn.

On the KRW FX, we continue to expect upcoming strength given the strong current account and portfolio account outlook. We think there is asymmetric downside risk to USDKRW if US economic data softens. We remain seller of EURKRW 3m NDF (current: 1437; entry: 1,429; target: 1,385, stop: 1,450). A risk to the trade is a resumption of US\$ strength. Term three months.

**14 March 2024**GEM FI & FX Strategy  
Asia

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BoP – balance of payment

NPS – National Pension Service

NDF- non-deliverable forward

For a full list of our trade recommendations, see [Global Emerging Markets Weekly: EM is dead – long live EM! 07 March 2024](#)

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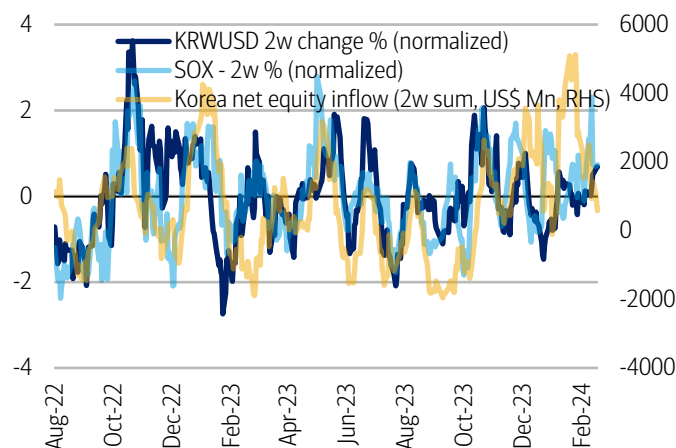
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Timestamp: 13 March 2024 06:15PM EDT

### Exhibit 1: KRWUSD & SOX (normalized) and net equity inflows to Korea (US\$ Mn)

The initial offshore enthusiasm over Corporate Value-Up is largely finished

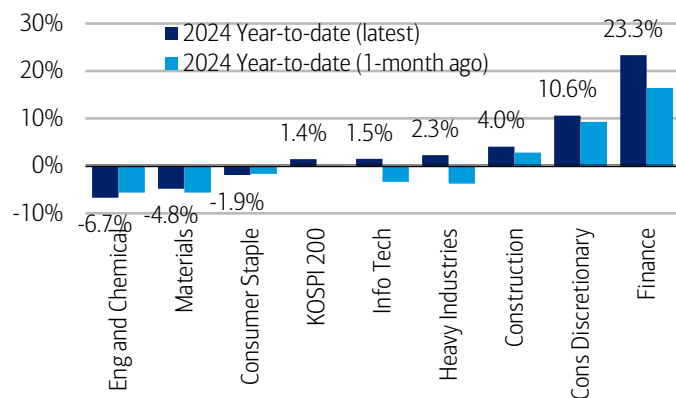


Source: Bloomberg

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### Exhibit 3: Year-to-date performance (%) of different KOSPI sectors

Year-to-date, the financial and consumer discretionary sectors have seen the most benefit from the Corporate Value-Up theme

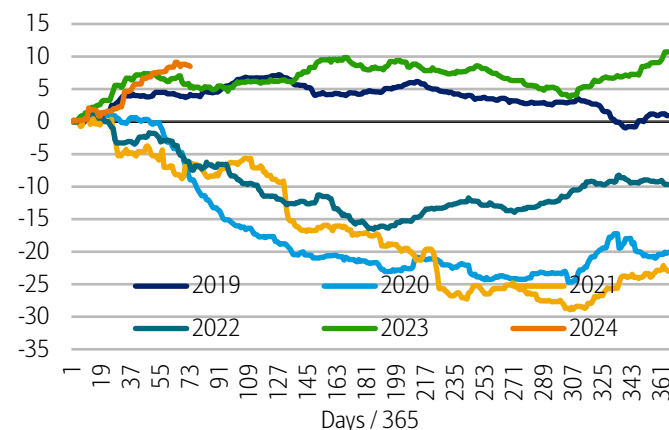


Source: Bloomberg

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### Exhibit 2: Year-to-date net inflows into Korea equities (US\$ Bn)

Year-to-date net inflows into Korean equities are strong and have exceeded the pace in 2024

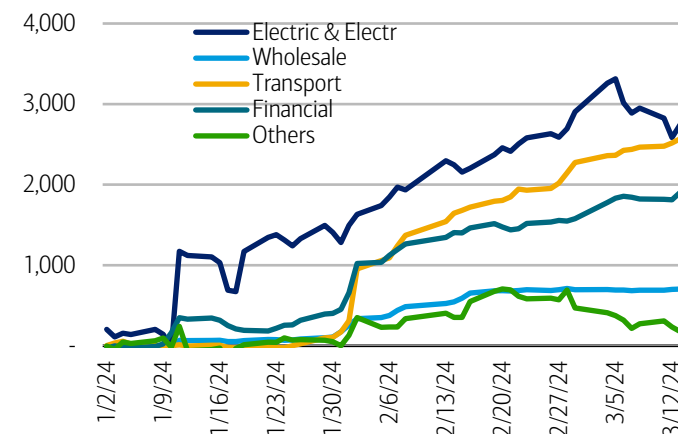


Source: CEIC

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### Exhibit 4: Year-to-date inflow into different KOSPI sectors (US\$ Mn)

Electronics, transport and financials have seen the largest inflow from the Corporate Value-Up initiative

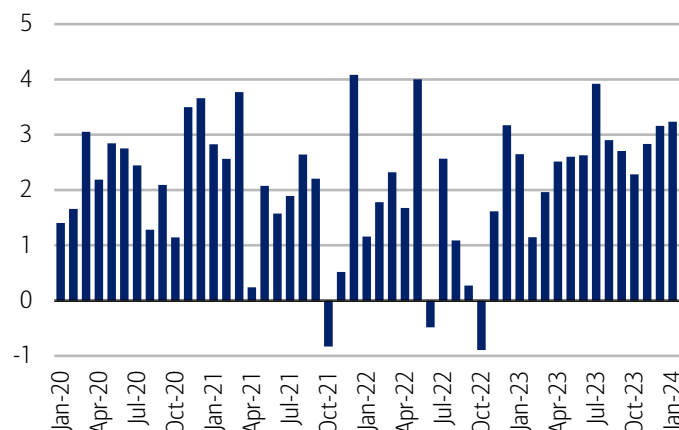


Source: Bloomberg

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**Exhibit 5: NPS: Monthly purchase of foreign assets (US\$ Bn)**

The monthly pace of NPS acquisition of foreign assets accelerated in the past three months

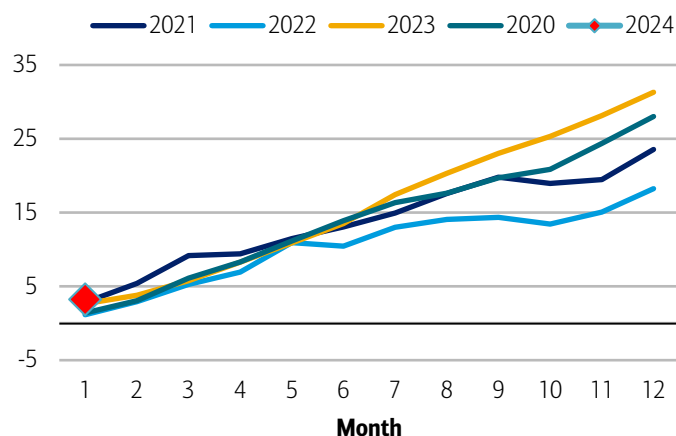


Source: CEIC

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**Exhibit 7: Year-to-date foreign asset acquisition by NPS (red dot denotes the year-to-date value for 2024)**

The pace of January 2024 foreign asset acquisition by the NPS is US\$3.2bn, faster than the January level of previous four years

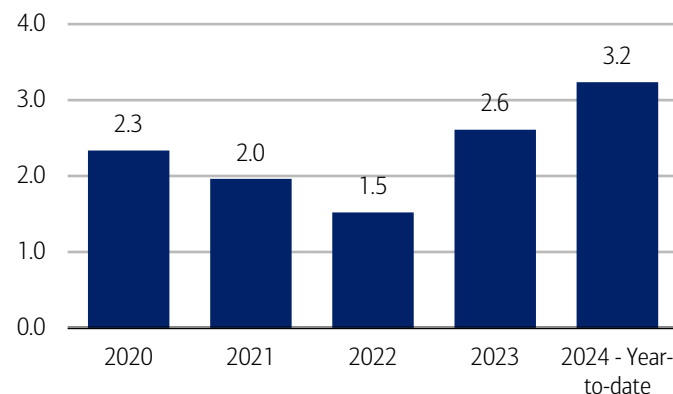


Source: CEIC

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**Exhibit 6: Average monthly US\$ purchase by the NPS**

In January 2024, the NPS increased its foreign claims by US\$3.2bn, higher than the 2023 average of US\$2.6bn/month in 2023

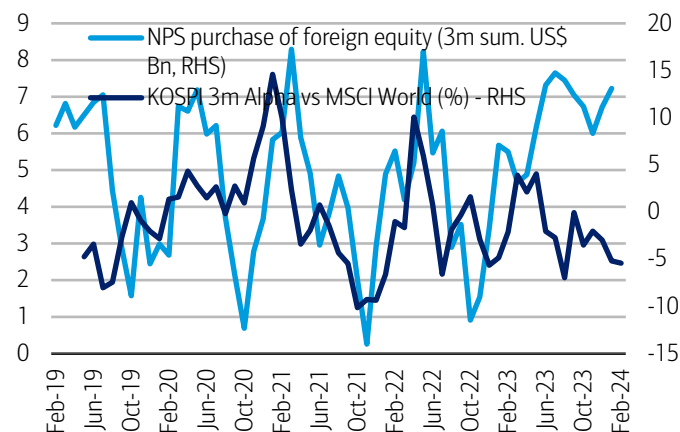


Source: CEIC

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**Exhibit 8: NPS purchase of foreign equity (3m sum, US\$ Bn) and KOSPI alpha versus MSCI World**

In 1Q21 and 2Q22, the NPS's purchase of foreign equity significantly rose following period of strong outperformance of KOSPI versus MSCI World



Source: CEIC

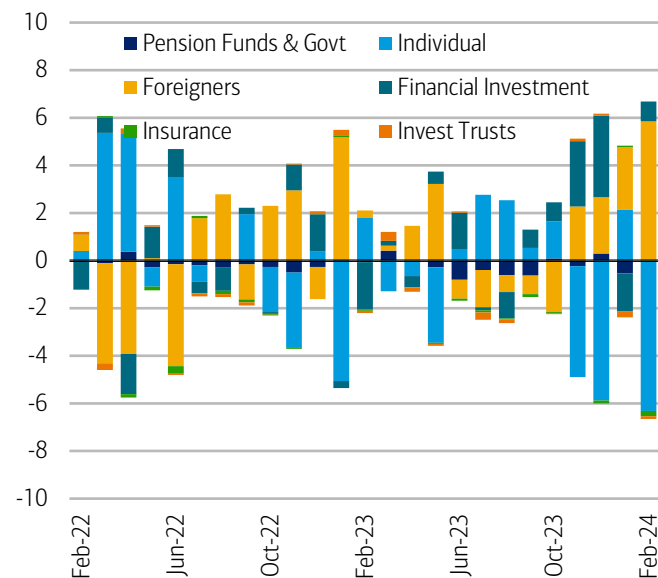
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# Korea Financial Flow – March 2024

## Section 1: Net buying/selling of Korean equities

### Exhibit 9: By entity (monthly, US\$bn)

Foreign investors in the Korean equity market accelerated their net buying in February 2024...

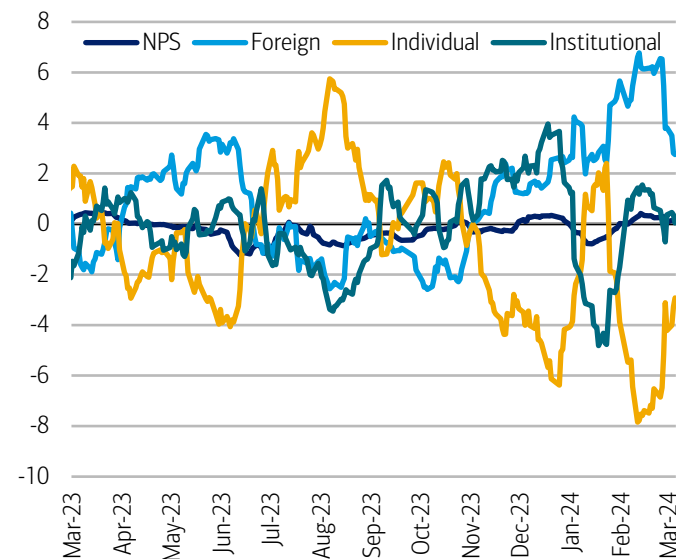


Source: Bloomberg, BofA Global Research

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### Exhibit 10: By entity (daily, 21-day sum, US\$bn)

... however, the pace is beginning to slow in March 2024

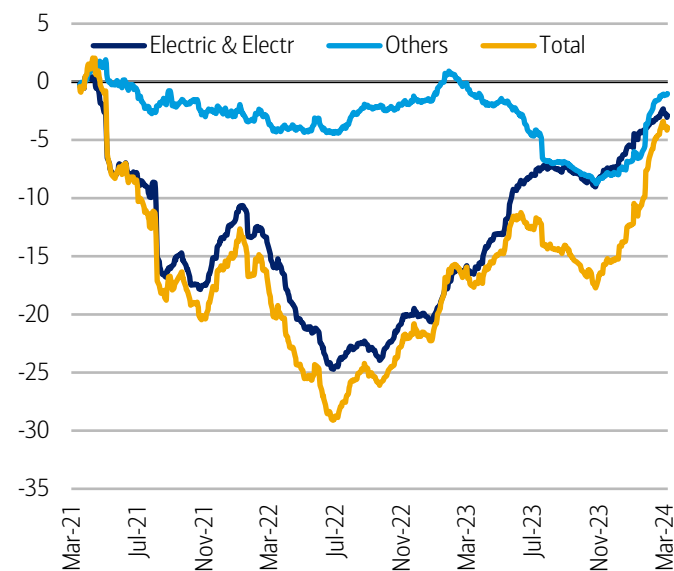


Source: Bloomberg, BofA Global Research

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### Exhibit 11: Net FINI inflows (US\$ Bn, March 2021 = 0)

Since November 2023, foreign investors increased their allocation into Korea equities in both the tech and non-tech sector

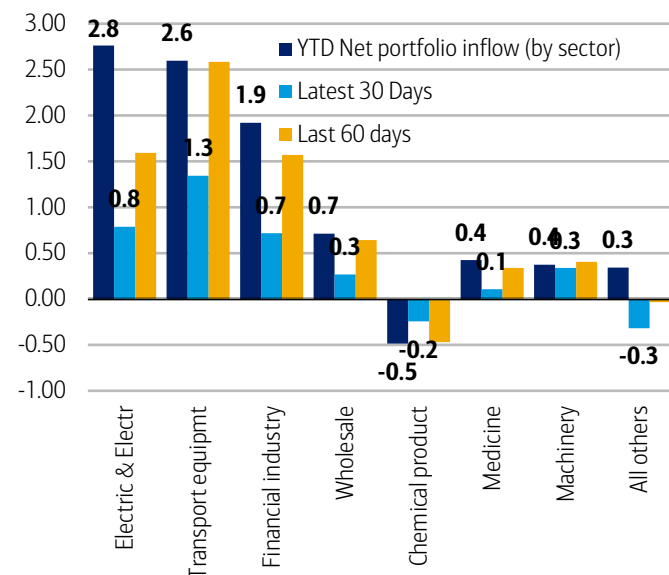


Source: Bloomberg, BofA Global Research

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### Exhibit 12: Year-to-date FINI inflows by sector (US\$ Bn)

Year-to-date, net inflows into the tech, transport and financial sector have been strong.

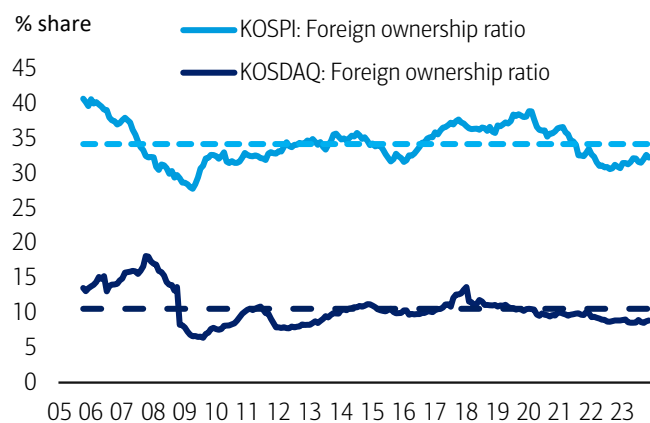


Source: Bloomberg, BofA Global Research

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**Exhibit 13: Foreign ownership ratio of KOSPI and KOSDAQ**

Foreign ownership ratio of Korean equities is not high compared to long-term historical averages



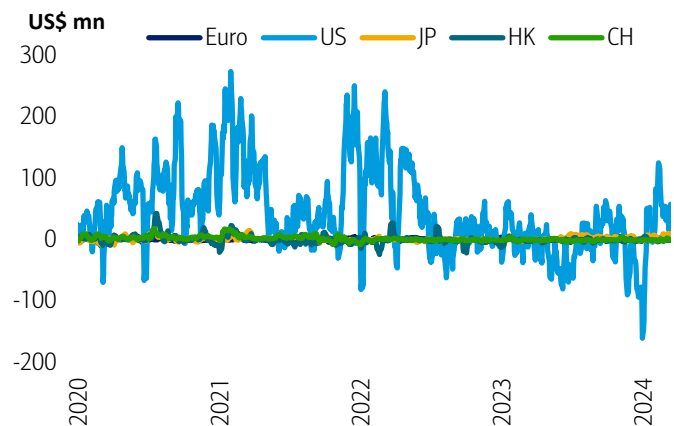
Source: CEIC

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## Section 2: Foreign activities of Korea retail investors

### Exhibit 14: Geography of foreign equity investment (daily, 7dma, US\$mn)

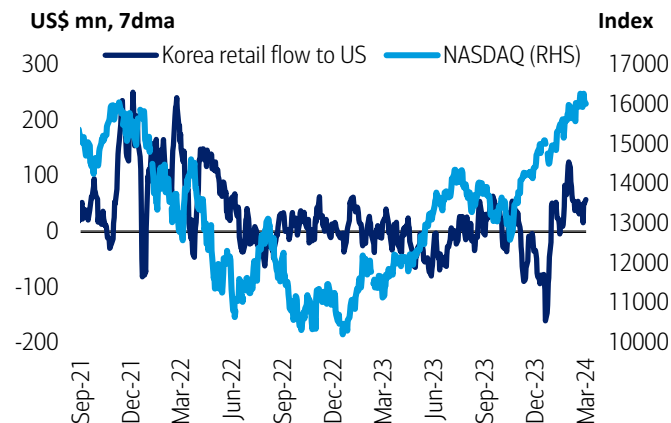
Korean retail investor net sold US stocks in February 2024



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### Exhibit 15: Korea retail flow to US (US\$ mn) and NASDAQ Index

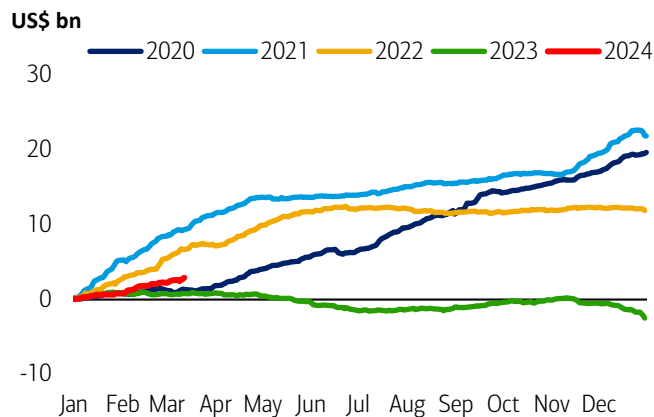
Korean retail investors have not chased the recent rally in the NASDAQ



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### Exhibit 16: YTD outflows by Korean retail investors (US\$bn)

Throughout 2024, Korean retail interest in foreign equity is low

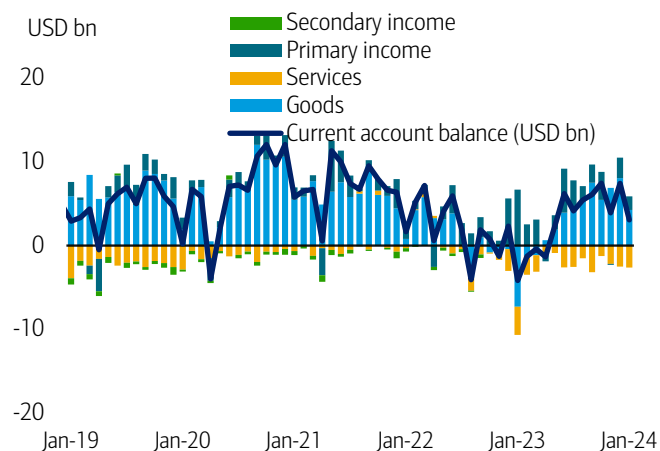


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## Section 3: Current account balance

### Exhibit 17: Current account balance

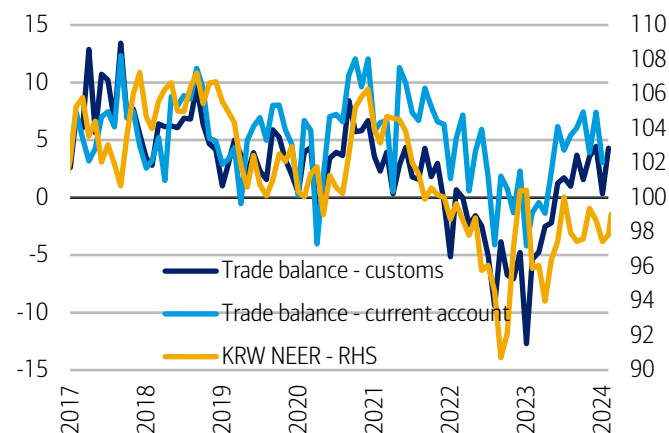
Korea's current account balance is positive and supported by strong goods export and primary income surplus



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### Exhibit 19: Relationship between Korea's trade balance (US\$ Bn) and KRW NEER

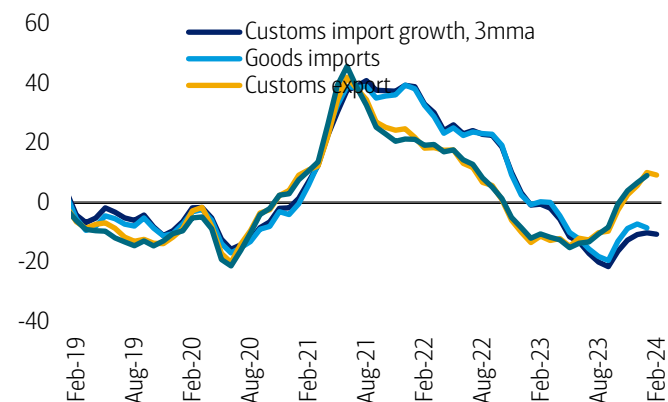
The KRW NEER displays a relationship between with the trade balance



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### Exhibit 18: Goods account and customs trade growth (y/y %)

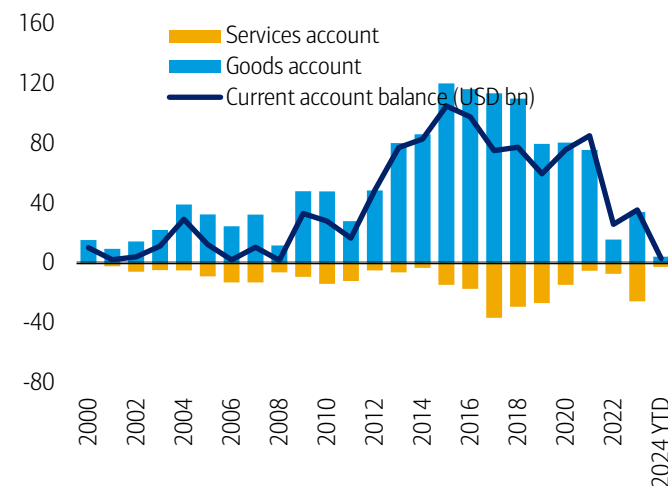
Good exports are showing strong signs of recovery



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### Exhibit 20: Historical current account balance

Korea's YTD current account balance is at US\$3bn (US\$ 36bn annualized)

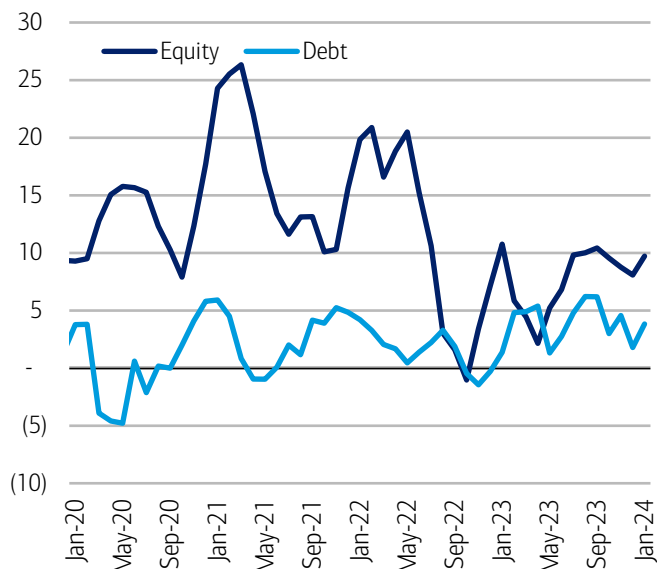


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## Section 4: Portfolio outflows from Korea

### Exhibit 21: Korean acquisition of foreign assets (3m sum, US\$bn)

Korean acquisition of foreign assets is led by equities

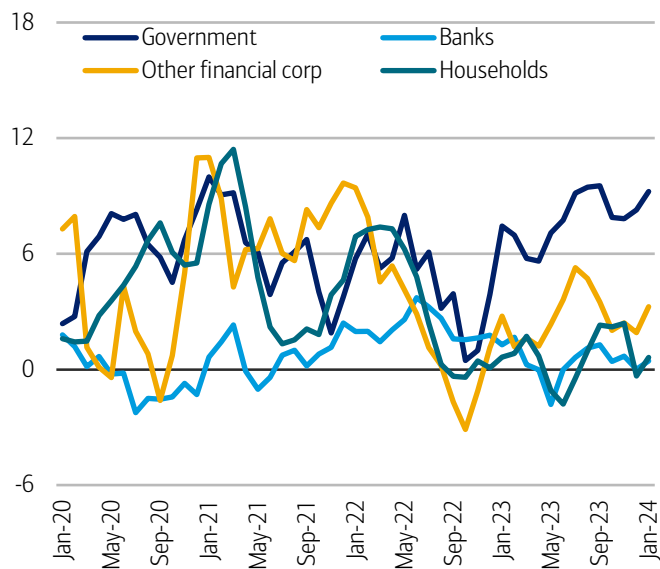


Source: Haver Analytics, BofA Global Research

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### Exhibit 22: Korean investment abroad: by entity (3m sum, US\$bn)

Since 2023, the NPS is Korea's largest buyer of foreign securities

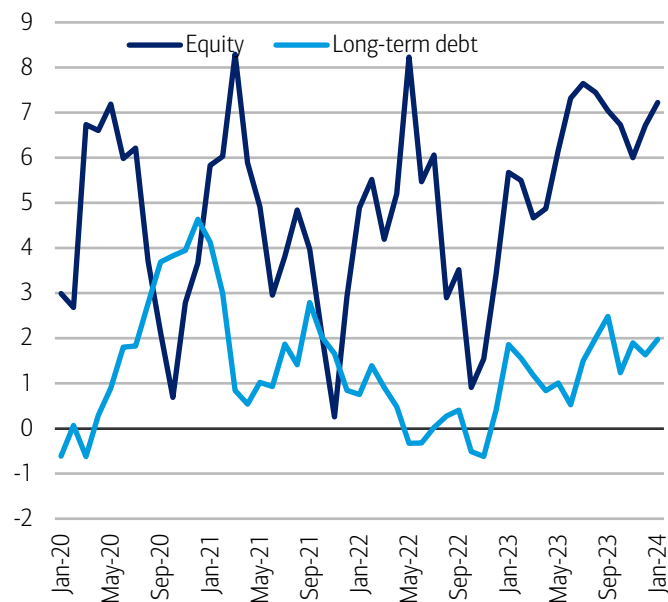


Source: Haver Analytics, BofA Global Research

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### Exhibit 23: Overseas investment by NPS (3m sum, US\$bn)

The acquisition of equities by NPS remains strong, at US\$7.2bn per quarter

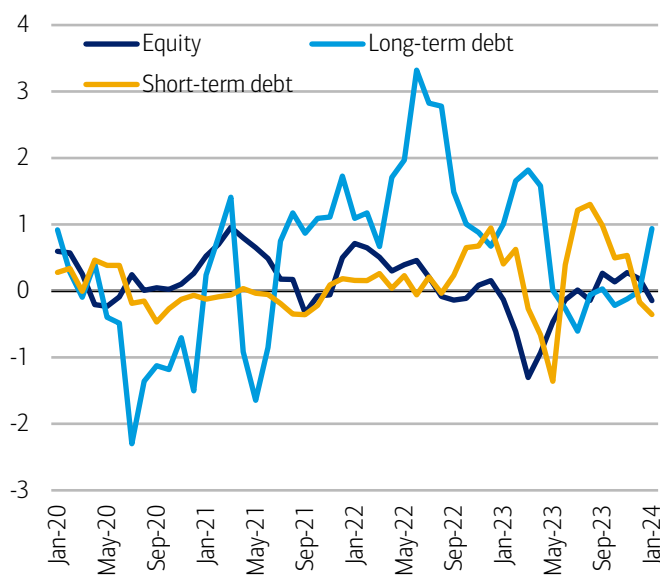


Source: Haver Analytics, BofA Global Research

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### Exhibit 24: Overseas investment by Korean banks (3m sum, US\$bn)

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



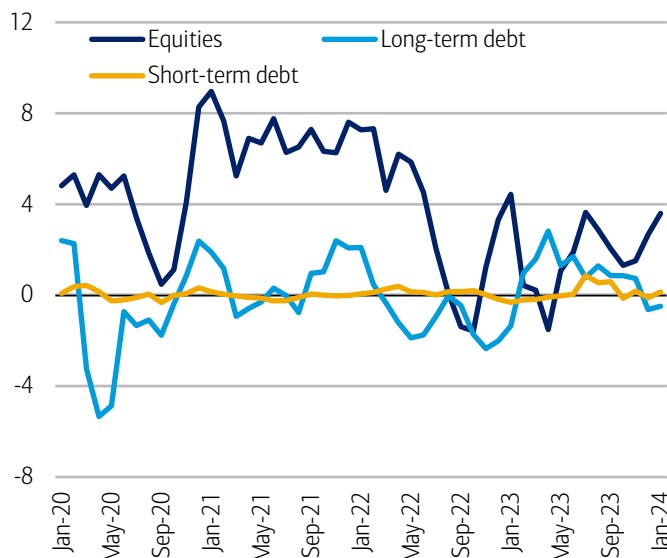
Source: Haver Analytics, BofA Global Research

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### Exhibit 25: Overseas investment by Korean Other Financial Corporations/OFCs (3m sum, US\$bn)

Korean OFCs purchase of foreign securities remains weak with a slight tick-up in equity buying

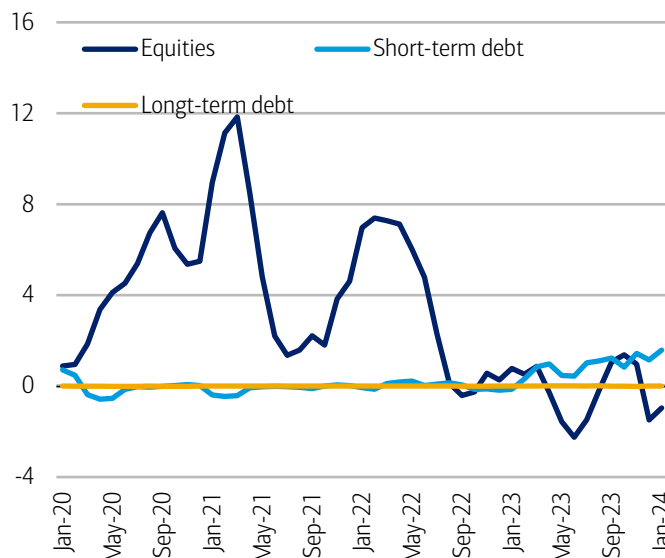


Source: Haver Analytics, BofA Global Research

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### Exhibit 26: Overseas investment by Korean households (3m sum, US\$bn)

Korean households purchase of foreign equity has been weak throughout 2023 and January 2024



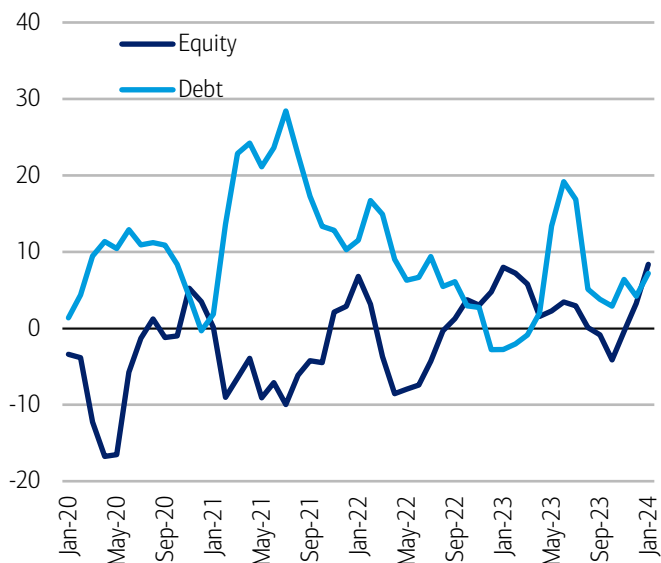
Source: Haver Analytics, BofA Global Research

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## Section 5: Portfolio inflows to Korea

### Exhibit 27: Foreign portfolio investment into Korea (3m sum, US\$bn)

Foreign interest in Korean equities rebounded in January 2024

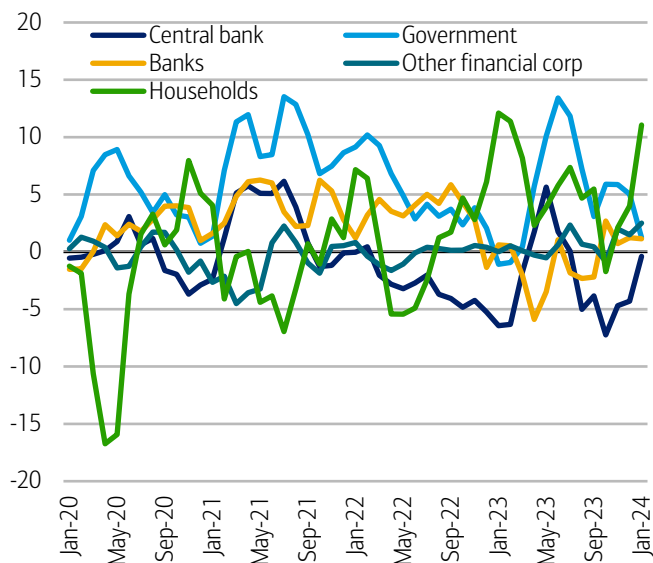


Source: Haver Analytics, BofA Global Research

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### Exhibit 28: Foreign portfolio investment by entity (3m sum, US\$bn)

Foreign household is the largest buyer of Korean securities

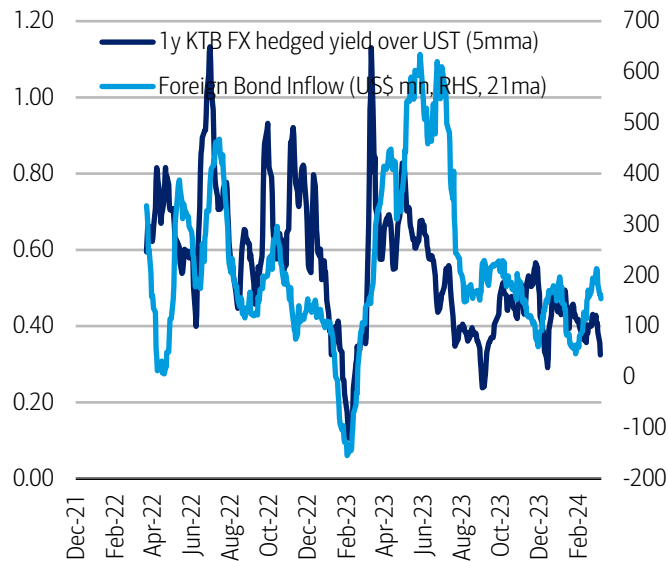


Source: Haver Analytics, BofA Global Research

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**Exhibit 29: Inflow into Korean bonds**

Foreign bond inflow into Korean debt slowed after July 2023

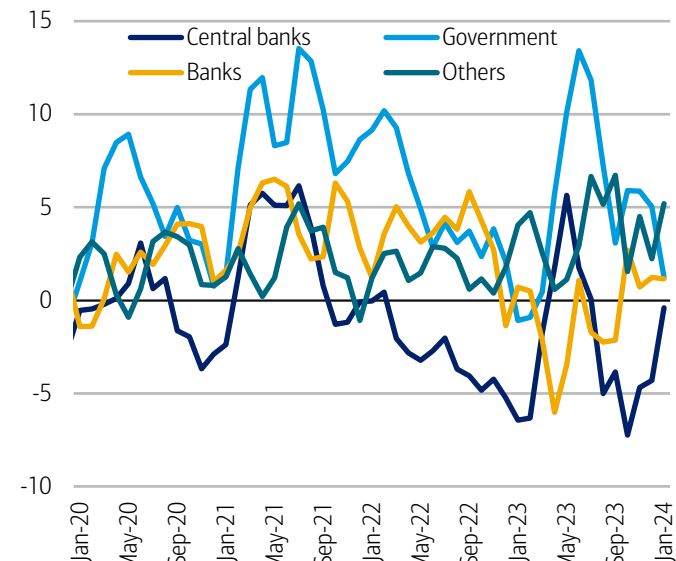


Source: Bloomberg, BofA Global Research

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**Exhibit 30: Foreign net purchase of Korean debt (3m sum, US\$Bn)**

Foreign public sector interest in Korean debt is currently low



Source: Bloomberg, BofA Global Research

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**Section 6: NPS - Target vs. realized weights by asset class****Exhibit 31: NPS: target weights vs. actual**

Over 2024, the NPS needs to decrease its asset weight in domestic fixed income and increase it for domestic and global equities, along with global fixed income

	2024-end target portfolio	15.4%	33.0%	29.4%	8.0%	13.8%
Over/ under weight		-1.1%	-2.0%	2.2%	-0.9%	2.1%
	Domestic Equities	Global equities	Dom FI	Global FI	Alt	
Dec-23	14.3%	31.0%	31.6%	7.1%	15.9%	
Nov-23	14.2%	30.5%	31.9%	7.1%	16.3%	
Oct-23	13.2%	30.1%	32.0%	7.4%	17.2%	
Sep-23	14.0%	30.1%	32.0%	7.4%	16.6%	
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%	

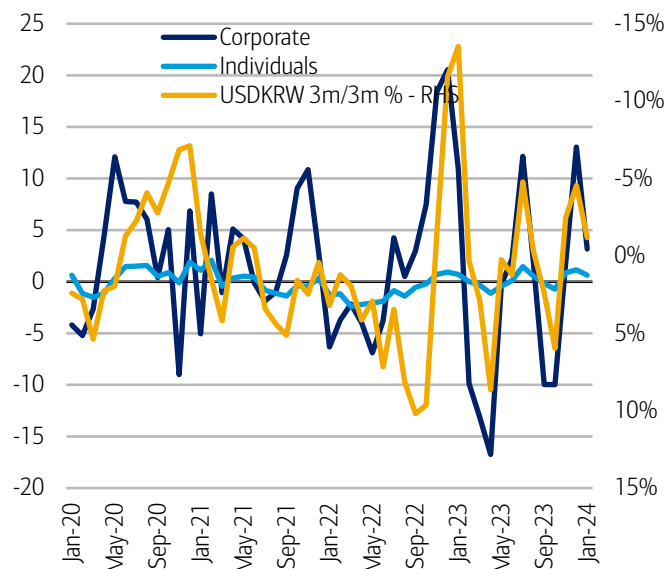
Source: Haver Analytics, BofA Global Research

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## Section 7: Foreign currency deposits

### Exhibit 32: FX deposits (3m change, US\$ bn)

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

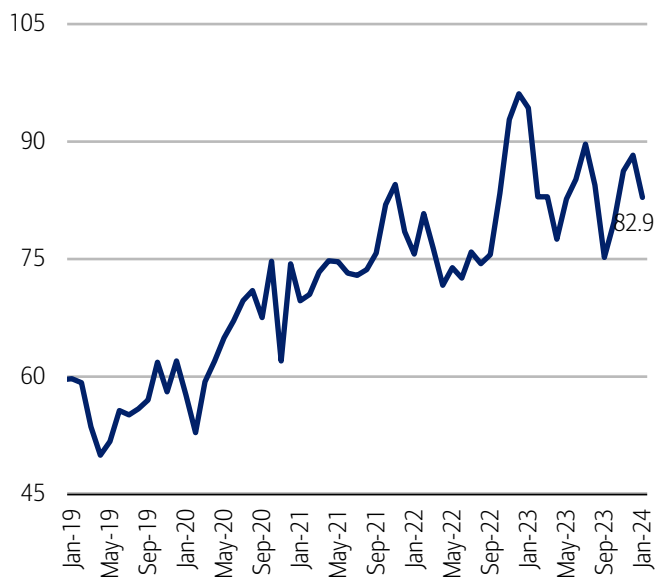


Source: Bloomberg, BofA Global Research

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### Exhibit 33: Corporate FX deposits (US\$ bn)

Korean corporate FX deposits fell to US\$82.9bn in January 2024



Source: Bloomberg, BofA Global Research

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