

# Asia FI & FX Strategy Watch

## Korea Financial Flows – January 2024

### Strong inflow into Korea equities during year-end

The strong risk-on environment in the second half of December 2023 brought strong equity inflow into Korea. However, unlike in 1H23, since November 2023, foreign interest in Korean equities has been widespread across several sectors. **Exhibit 7** shows that foreign interest in Korean equities is robust across both the tech and non-tech sectors. This may be tied to a rebound in the global export cycle, where we have seen strong semi export performance, along with non-tech products such as petrochemicals and autos (see: [Korea Watch: Dec Trade: Export growth rose in 3 consecutive months](#)).

### New year-to-date high in US\$ demand from the NPS

The November 2023 BoP data shows that NPS's net demand for the US\$ in the first 11 months of 2023 has already exceeded the annual amount for 2020, the previous annual high (**Exhibit 2**). From January to November 2023, the NPS increased foreign assets (on a net basis) by US\$28.1bn, more than the 2020 annual total of US\$28.0bn. The strong US\$ demand from the NPS may be the factor behind BoK's decision to extend its US\$35bn FX swap line with the NPS by another year. The BoK's swap line would negate the NPS's foreign asset purchase impact on spot USDKRW.

With the BoK offsetting the NPS's net impact on the spot FX market and the solid equity-risk backdrop in 2024, supported by the Fed's dovish pivot, we currently put a bullish bias on the Korean Won. Our convictions are further underpinned by the recovery in Korea's exports, rising DRAM prices and robust foreign investor sentiment across different equity sectors.

Recently, the rebound of US rates higher and a stronger USD has pushed USDKRW higher and back toward the upper end of the recent range at 1,320-1,325. Our G10 FX team holds the view that throughout 2024, deflation equates to a modestly weaker USD. Meanwhile, our US economics team is increasingly constructive on the path of US inflation and sees headline and core CPI on track to return to the Fed's 2% target, aided by the recent decline in inflation expectations. Being a high-beta currency, the USDKRW should be an outsized beneficiary of a more stable inflation in the US, even if the decline in the broad USD Indices proves to be slow and non-linear.

As such, we think investors should approach USDKRW with a "sell on spike" mentality until the macro frame we outlined above is no longer true.

11 January 2024

GEM FI & FX Strategy  
Asia

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BoP – balance of payment

NPS – National Pension Service

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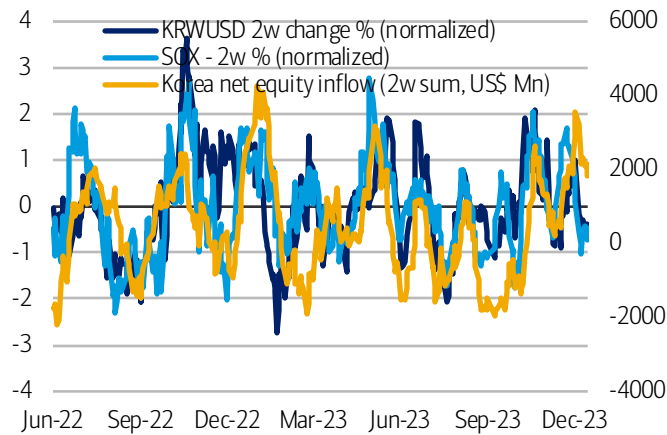
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Timestamp: 10 January 2024 07:42PM EST

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

Recent net equity flow has been into more than just the tech sector

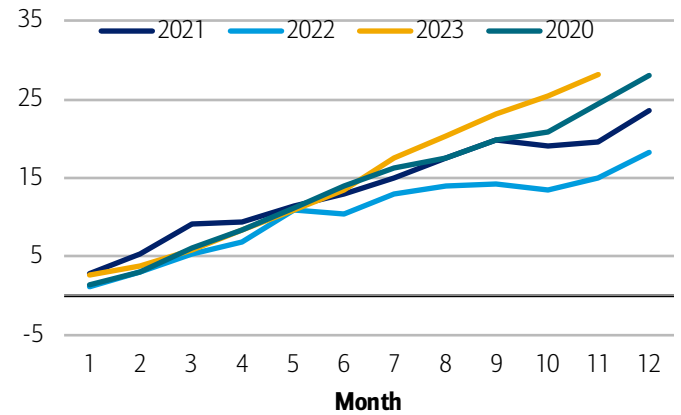


Source: Bloomberg

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### Exhibit 2: Year-to-date foreign asset purchase by the NPS (US\$ bn)

The first 11 months of 2023 saw the NPS buy more foreign assets in than in the previous three years

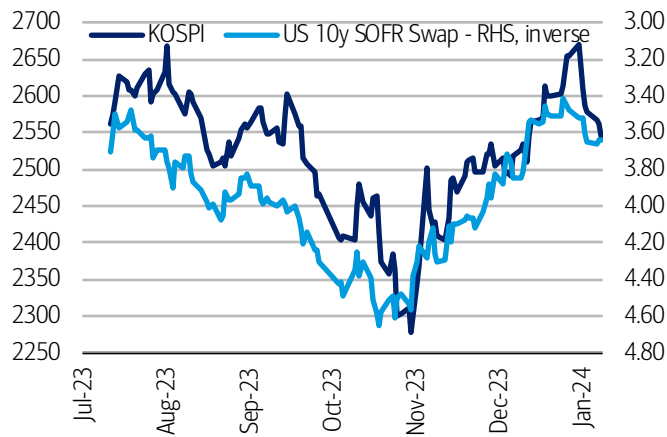


Source: CEIC

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### Exhibit 3: KOSPI and US rates (10y SOFR swap, bps)

The recent rebound in US rates has been a headwind for KOSPI valuations

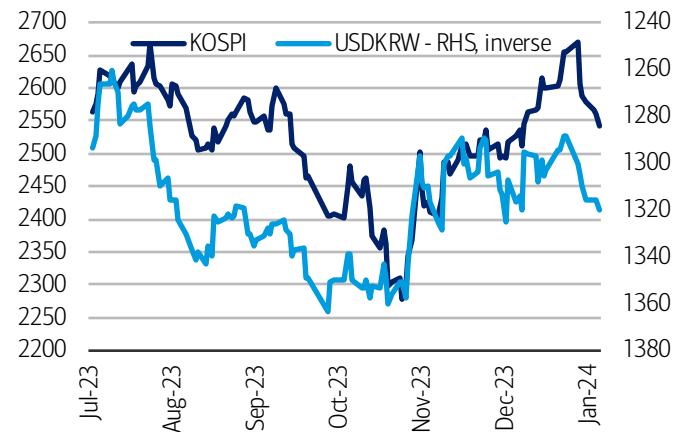


Source: Bloomberg

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### Exhibit 4: KOSPI and USDKRW

Rebound in US rates and USD pushed KOSPI lower and USDKRW higher



Source: Bloomberg

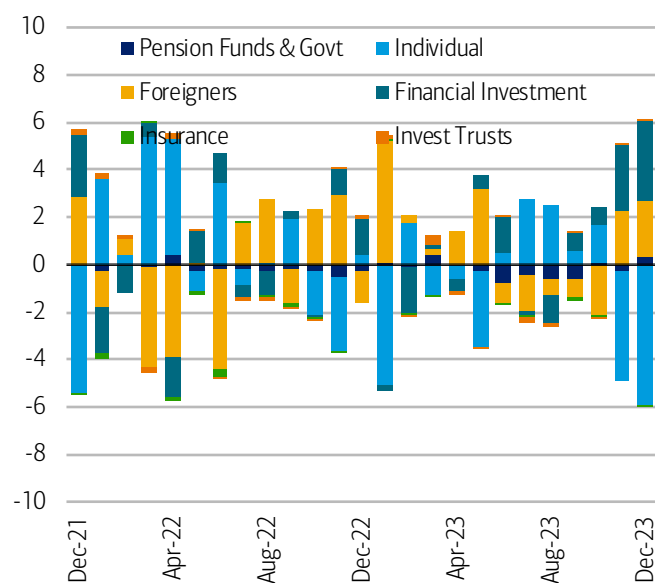
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# Korea Financial Flow – January 2023

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

### Exhibit 5: By entity (monthly, US\$bn)

Foreign investors in the Korean equity market were net buyers in December 2023...

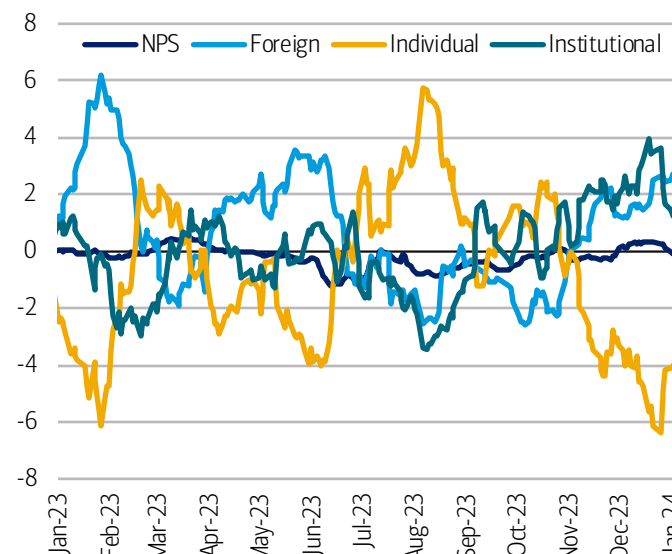


Source: Bloomberg, BofA Global Research

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### Exhibit 6: By entity (daily, 21-day sum, US\$bn)

... with strong buying interest from both foreign and institutional investors

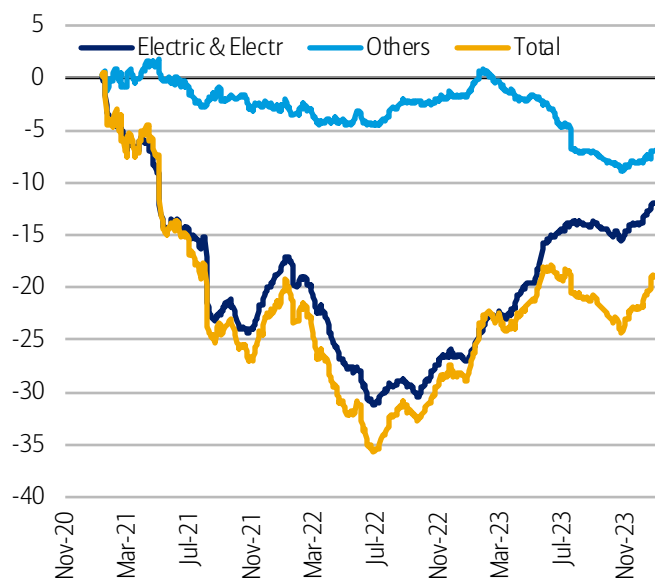


Source: Bloomberg, BofA Global Research

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### Exhibit 7: Net FINI inflows (US\$ Bn, Jan 2021 = 0)

Since November 2023, foreign investors have been increasing allocation into Korea equities in both the tech and non-tech sector

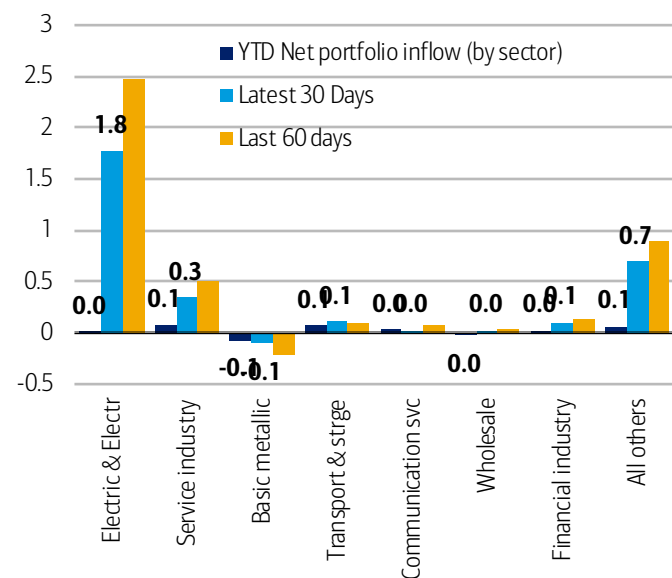


Source: Bloomberg, BofA Global Research

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### Exhibit 8: Year-to-date FINI inflows by sector (US\$ Bn)

In the past 30 days, net inflows into the tech sector has been strong at US\$ 1.8bn



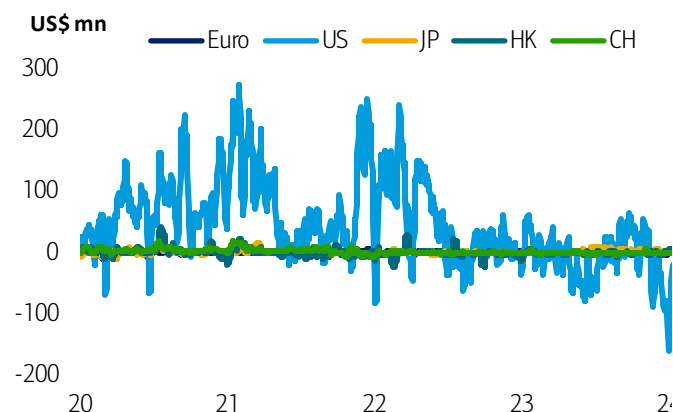
Source: Bloomberg, BofA Global Research

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## Section 2: Foreign activities of Korea retail investors

### Exhibit 9: Geography of foreign equity investment (daily, 7dma, US\$mn)

Korean retail investor net sold US stocks in December 2023

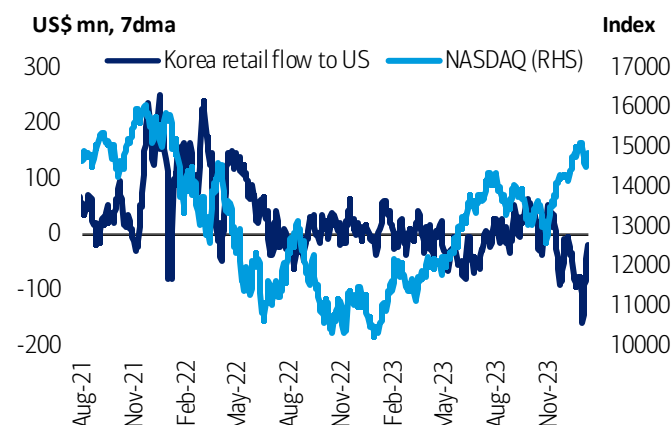


Source: SeiBro, BofA Global Research

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### Exhibit 10: Korea retail flow to US (US\$ mn) and NASDAQ Index

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

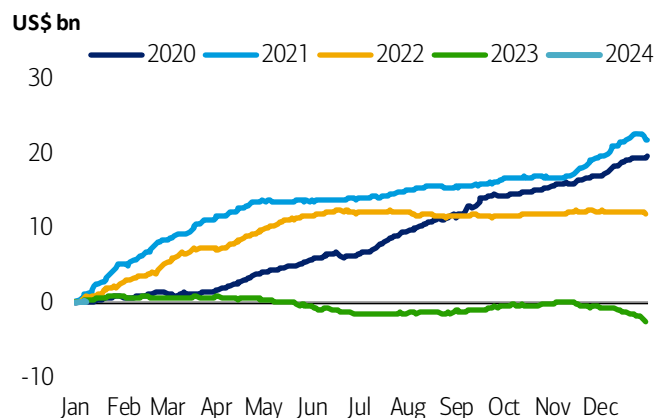


Source: SeiBro, Bloomberg, BofA Global Research

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### Exhibit 11: YTD outflows by Korean retail investors (US\$bn)

Throughout 2023, Korea retail investors net sold foreign equities



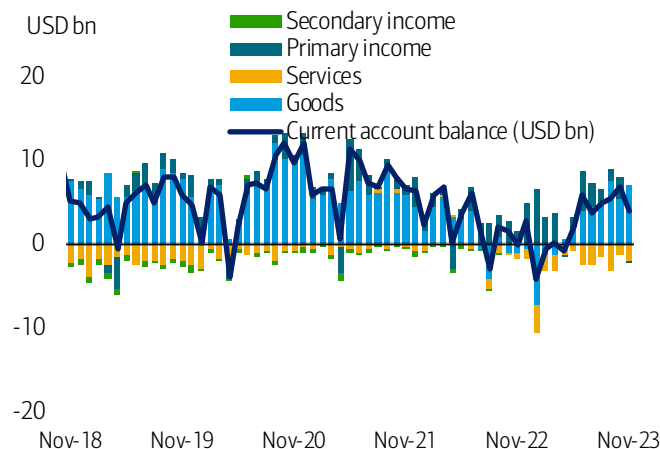
Source: SeiBro, BofA Global Research

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## Section 3: Current account balance

### Exhibit 12: Current account balance

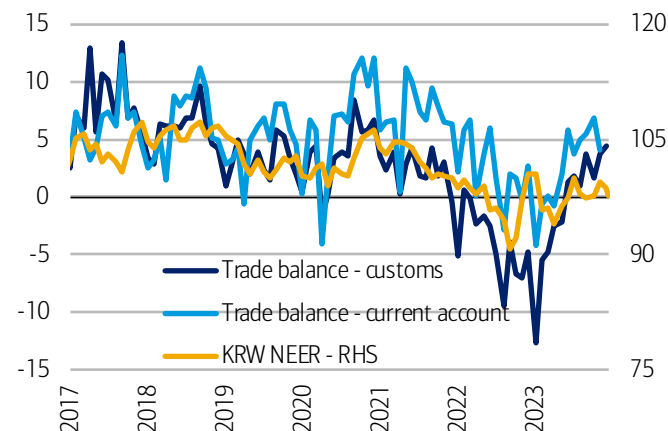
Korea's current account balance is positive and supported by strong goods export



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### Exhibit 14: Relationship between Korea's trade balance (US\$ Bn) and KRW NEER

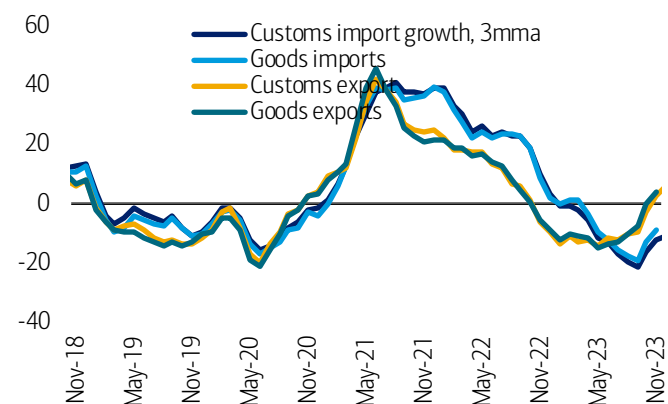
The KRW NEER displays a relationship with the trade balance



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### Exhibit 13: Goods account and customs trade growth (y/y %)

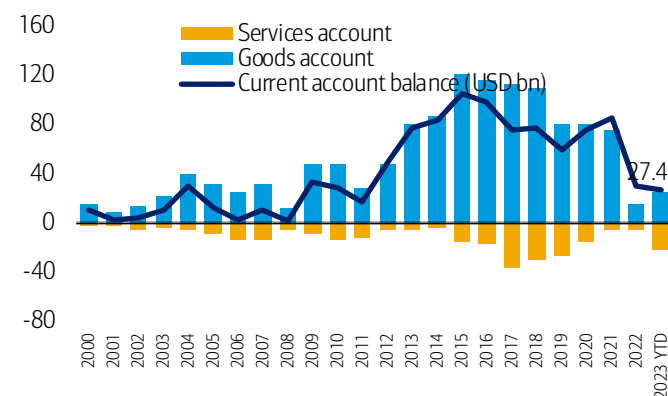
Goods export shows strong signs of recovery



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### Exhibit 15: Historical current account balance

Korea's Jan-Nov 2023 current account balance is at US\$27.4bn

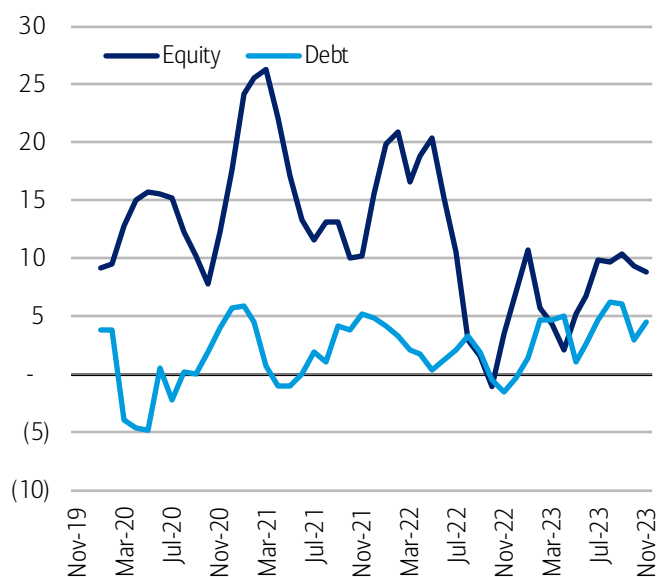


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## Section 4: Portfolio outflows from Korea

### Exhibit 16: Korean acquisition of foreign assets (3m sum, US\$bn)

Korean acquisition of foreign assets are led by equities

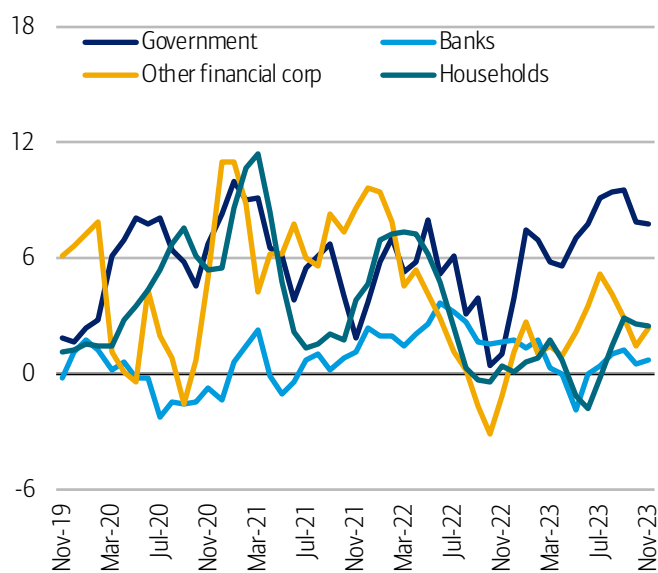


Source: Haver Analytics, BofA Global Research

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### Exhibit 17: Korean investment abroad: by entity (3m sum, US\$bn)

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

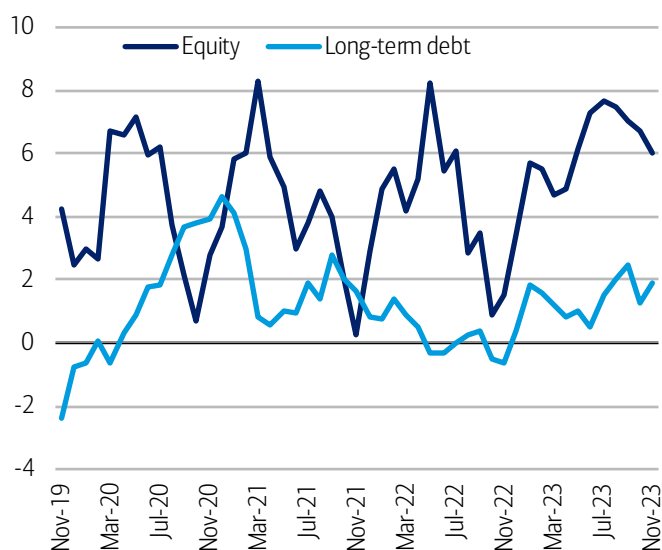


Source: Haver Analytics, BofA Global Research

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

The acquisition of equities remains strong, at US\$3bn per quarter

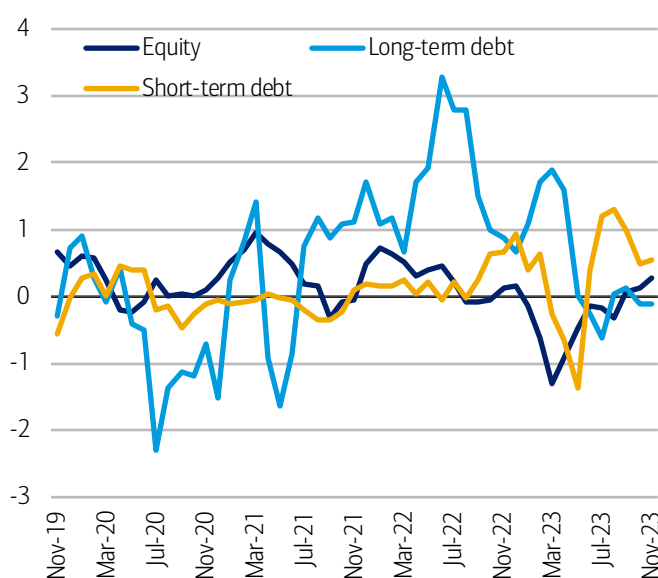


Source: Haver Analytics, BofA Global Research

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### Exhibit 19: Overseas investment by Korean banks (3m sum, US\$bn)

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

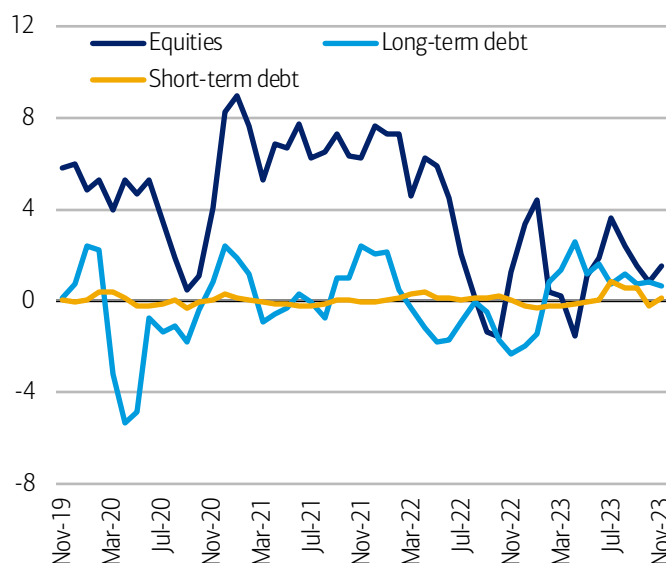


Source: Haver Analytics, BofA Global Research

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### Exhibit 20: 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 classes

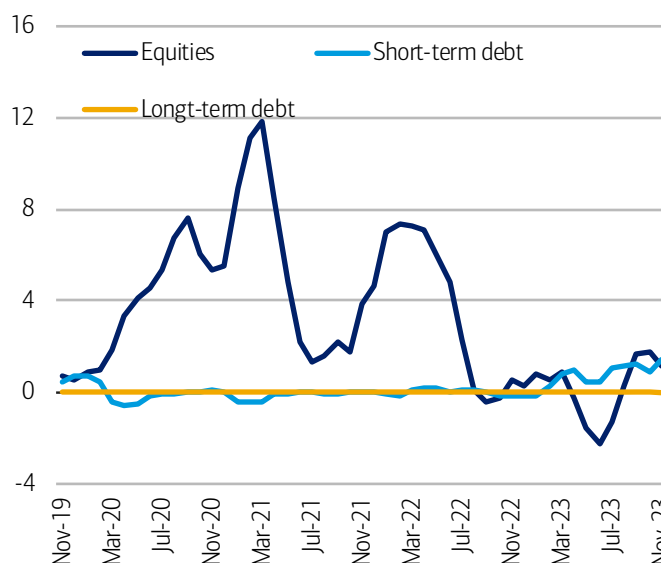


Source: Haver Analytics, BofA Global Research

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### Exhibit 21: Overseas investment by Korean households (3m sum, US\$bn)

Korean households purchase of foreign equity has been weak throughout 2023



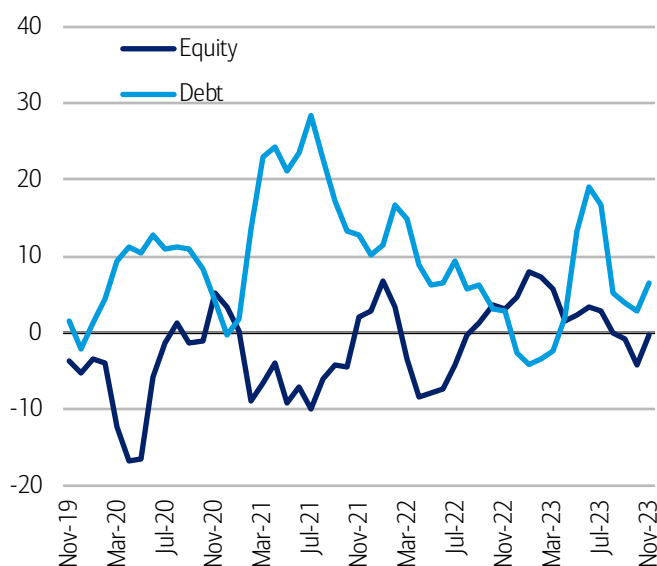
Source: Haver Analytics, BofA Global Research

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## Section 5: Portfolio inflows to Korea

### Exhibit 22: Foreign portfolio investment into Korea (3m sum, US\$bn)

Foreign interest in Korean equities rebound started in November 2023

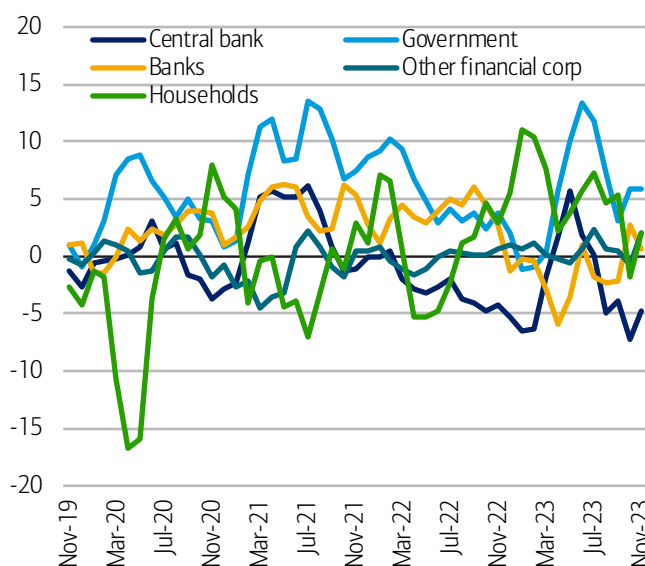


Source: Haver Analytics, BofA Global Research

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### Exhibit 23: Foreign portfolio investment by entity (3m sum, US\$bn)

Foreign public sectors remain the largest buyer of Korean securities

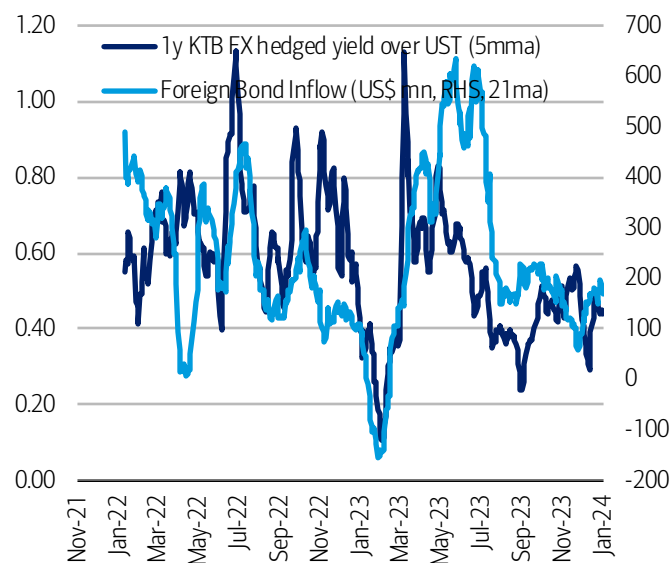


Source: Haver Analytics, BofA Global Research

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**Exhibit 24: Inflow into Korean bonds**

Foreign bond inflow into Korean debt slowed after July 2023

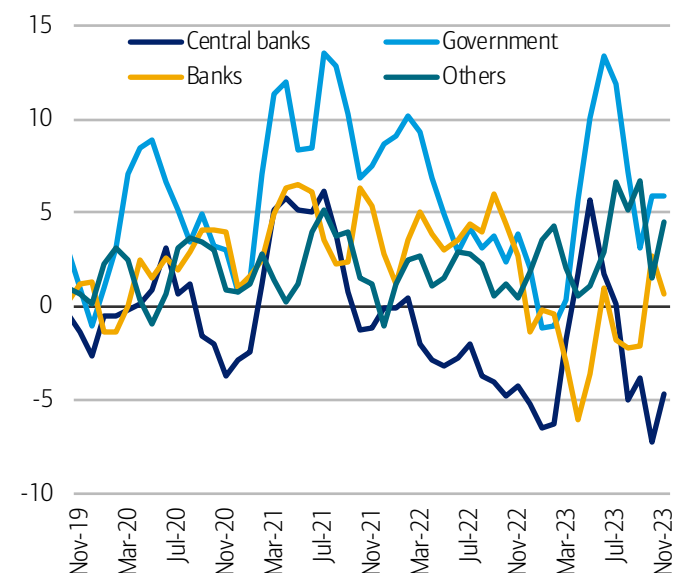


Source: Bloomberg, BofA Global Research

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**Exhibit 25: Foreign net purchase of Korean debt (3m sum, US\$Bn)**

Foreign public sector remains the largest buyer of Korean debt



Source: Bloomberg, BofA Global Research

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**Section 6: NPS - Target vs. realized weights by asset class****Exhibit 26: 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
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%
Apr-23	14.5%	28.9%	33.2%	7.3%	16.1%
Mar-23	14.8%	28.1%	33.8%	7.2%	16.1%

Source: Haver Analytics, BofA Global Research

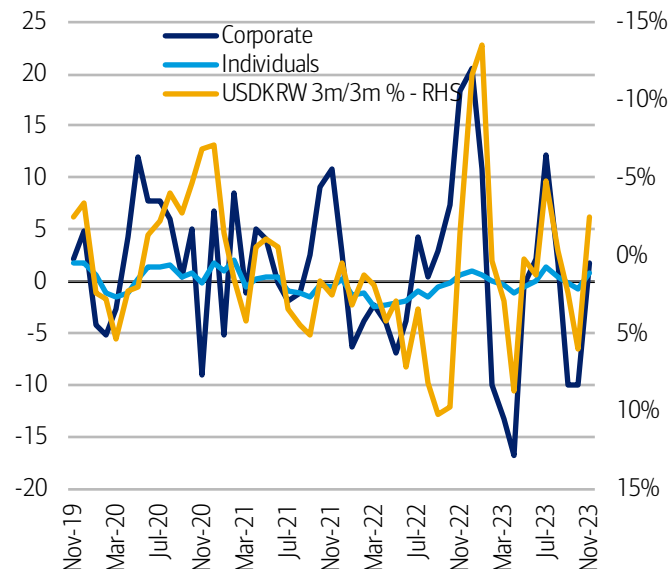
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## Section 7: Foreign currency deposits

### Exhibit 27: FX deposits (3m change, US\$ bn)

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

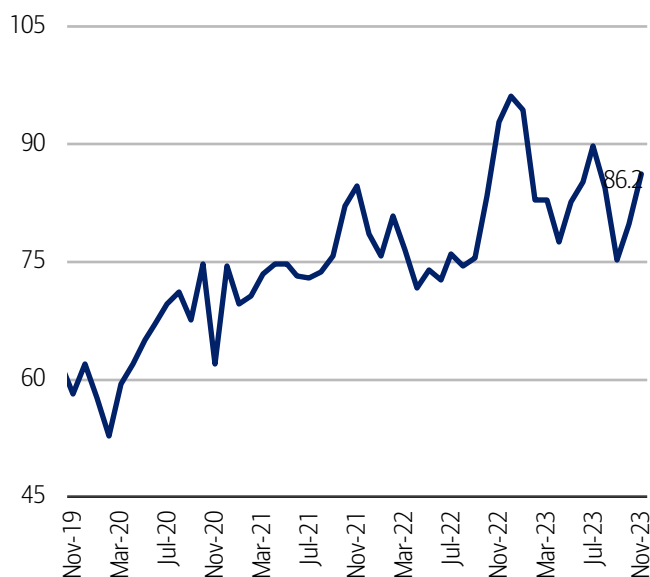


Source: Bloomberg, BofA Global Research

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### Exhibit 28: Corporate FX deposits (US\$ bn)

Korean corporate FX deposits rose to US\$86.2bn in November 2023



Source: Bloomberg, BofA Global Research

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