DOWNWARD TRENDS IN MAY

by Chan-Jin Kim

Many Factors Pushing the Rates Down

The yields on three-year corporate bonds, the benchmark long-term interest rates in Korea, have showed downward trends in May. Yields on other kinds of bonds have also moved downwards. The recent affluence of money in the market has helped the rates move down. First, the appreciation of the Japanese yen against the dollar has sparked Korea's exports and improved firms' financial conditions. Although it is difficult to forecast the yen-dollar rate, many predict that the rate will not fluctuate much for the time being. Second, financial institutions have plenty of liquidity to purchase bonds due to careful lending to firms so that the increases in demand for bonds have lowered the rates. In addition, the stable inflation rate has helped to keep the market interest rates down. All these factors caused the monetary authority not to change the amount of money supply much in May.

Stable Downward Trends in June

The recent disorder in the money market—e.g., the bankruptcies or financial difficulties of a few large business groups earlier this year—caused most firms have a difficult time to borrow money in the market although the financial institutions had enough money to lend. This has been the most important barrier to lowering market interest rates as of late and it will not disappear soon; therefore, the rates are not likely to drop rapidly. However, rising exports and business activity could help firms be in better financial circumstances unless the yen depreciates against the dollar. In addition, because the possibility of a tight monetary policy is low due to the recent slow increases in M2, the money market will not be significantly disturbed. The monthly ceiling on the issuance volume of corporate bonds will be relaxed beginning in June so there will be increases in the supply of bonds and a slight rise in rates, but this will not be large enough to cause a major upward trend. There is still some worry about the money market due to the recent rumors of crisis in the financial market, thus the market should be cautiously watched. Overall, the recent downward trends should last because the money market situations are not bad enough to warrant change and the government has been trying to lower the rates as much as possible. VIP

"The recent affluence of money in the market has helped the rates move down."

〈Table 1〉 Major Bond Yields(%)

	Corporate[1]	Bank Debenture[2]	Monetary Stabilization[2]	National Housing[3]
Feb. 1	12.00	12.50	12.80	11.10
March 1	12.43	12.50	12.40	11.10
April 1	12.48	13.00	12.60	11.55
May 1	12.50	12.90	12.60	11.45
May 24	12.19	12.85	12.60	11.30

Note: 1) 3-year maturity, 2) 1-year maturity, 3) 5-year maturity