

THE WON'S STABILITY WILL CONTINUE

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New "Three Lows" Are Expected

The yen's steep rise against the dollar has provided the Korean financial market with momentum to regain stability earlier than expected. As the yen surged against the greenback in international money markets, both the won/dollar exchange rate and market interest rates dropped sharply, whereas stock prices in the Seoul stock market soared. Largely affected by the weak dollar, the won regained its strength from 1,391 won per dollar at the end of September to 1,313.80 won at the end of October. The reason of won's appreciation is mainly the increase in the supply of dollar in the domestic foreign exchange market. Many Korean enterprises, who stored a lot of dollars anticipating that the greenback would continue to keep its strength, began to rush into the local exchange market to dispose of dollars. Because of the dollar's abrupt nosedive, enterprises possessing dollars are now worrying over possible exchange rate losses.

Another reason for the won's appreciation is the expectation of the new "three lows." As the dollar continued its drop against the yen, expectations for the advent of the new three lows—low dollar, low interest rates, and low raw material prices—are growing in the Korean market. The yen's strength (dollar's weakness) will certainly boost the export price competitiveness of Korean products in overseas markets, especially in the automobile, electric-electronics, steel, shipbuilding, and machinery fields, in which Korea competes head-to-head with Japan. According to the Bank of Korea's (BOK) empirical studies, a 10

percent rise in the value of the yen is expected to bring about an additional \$1.5 billion in Korea's trade balance. However, according to HRI's empirical study, the won has also shown strength against the dollar these days. If this trend (the strong won) continues, it might offset a considerable part of the benefits stemming from the yen's strength. Despite the risk of the strong won, the yen's surge against the dollar is expected to combine with lowering interest rates in world markets and stable raw material prices to bring far-reaching positive effects to the slumping Korean economy.

The Won Will Be Stable Temporarily

However, it is too early to predict how much the Korean economy will benefit from the yen's abrupt surge against the dollar. The yen's recent rise does not stem from an improvement in the fundamentals of the Japanese economy, but from Washington's lowering of key interest rates and the hedge funds' purchase of yen. As a result, expecting the yen to remain strong against the dollar for an extended period of time is premature. When the three lows hit the global economy during in the middle of the 1980s, Korea enjoyed an unprecedented economic boom, with the nation's current account swinging to a surplus for several consecutive years. This trend will appear again temporarily, and the won will regain its strength to a level of 1,200~1,300 won per dollar. However, the risk of yen's downfall still remains because the fundamentals of Japan's economy are still weak. **VIP**

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