

## EXCHANGE RATE WILL FLUCTUATE SLIGHTLY DOWNWARD

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### *Government Blocking Won's Appreciation*

Since the sharp decline in December, the won/dollar rate stabilized between 1,170 and 1,180 for most of January. The won/dollar rate momentarily declined to 1,149 at the beginning of January, but further appreciation was blocked by the government's indirect intervention as it pushed government-owned banks and public corporations to buy dollars in the market. Afterward in February, whenever the government felt the upward pressure in the value of won, it repeated almost the same practices to pull it down. As a result, the won/dollar rate stayed at a level slightly lower than the year-end level, remaining around 1,170.

There are several reasons for the downward movements in the won/dollar rate, such as the strong yen, increasing foreign investments into domestic stock market, and the continuing trade account surplus. However, since the government is having the Export-Import Bank of Korea buy dollars in the market, the sharp decline of the won/dollar rate has been halted.

It seems that there are two types of factors behind the won's appreciation: external and internal. There are three external reasons for the won's appreciation. First, the worries over the monetary crisis in Brazil and the possibility of yuan's depreciation have been alleviated, resulting in the won's appreciation. Second, the yen remained continuously strong against the U.S. dollar. Third, as the spreads on foreign currency-denominated bonds continuously decreased, the conditions on foreign loans improved. Among internal factors, there are

two reasons. First, the trade account surplus, about 690 million dollars in January, led to an oversupply of dollars. Second, since the international credit rating agencies Fitch IBCA and S&P upgraded Korea's sovereign credit ratings, the net-inflow of foreign investment into the domestic stock market has increased by 1.4 billion dollars, the highest total over the last eleven months. In spite of the numerous appreciation factors, though, the indirect intervention of the government prevented the won's additional decline.

### *Exchange Rate Will Slightly Fluctuate between 1,160~1,180*

Though the oversupply of dollars in the exchange market will continue, it seems likely that the won/dollar exchange rate will slightly fluctuate in the 1,160~1,180 range thanks to the indirect intervention of the government. In the event of the won's sharp decline, the government will instantly buy dollars in the market through national banks and public corporations. This is aimed at preventing Korean goods from losing their price competitiveness. As the downward trend of interest rates is reversed and domestic stock market is showing a correction in the stock price index, the supply of dollars is expected to decrease with the outflow of foreign investment. However, if Moody's also upgrades Korea's sovereign credit ratings as is expected, there is a possibility that the won/dollar exchange rate will fall sharply. **VIP**

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