

WILL THE 1,000 WON/100 YEN RATE CONTINUE?

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1,000 Won/100 Yen: A Maginot Line

As the yen/dollar rate sharply rose above 120 yen at the end of the lunar new year holidays, the won/100 yen rate momentarily declined to the 990s. But it instantly recovered thanks to the government's indirect intervention, as the BOK pushed government-owned banks to buy dollars in the market. Even though the yen/dollar rate has stabilized between 117 and 118 at present, the won/100yen rate has further moved up to 1,040 due to the purchase of dollars by the Export-Import Bank of Korea. This is aimed to prevent the weakening of the price competitiveness of Korean export commodities.

It is expected that the yen/dollar rate will slightly rise for the time being. There are two reasons for the upward movement. First, the Japanese government will continue the expansionary monetary policy by lowering interest rates, which will lead to yen's depreciation. Second, it does not seem that the Japanese economy will significantly recover in the 1st half since both consumption and

investment have not shown a full recovery yet. As was mentioned above, the won/dollar rate will move upward with the yen's depreciation.

Not Likely To Continue in the 2nd Half

However, it is likely that the 1,000 won per 100 yen Maginot line will not be bolstered for a long time. In the second half, there will be less effect of the government's action toward the market. In fact, the Japanese economy will show slight recovery and the U.S economic growth may show a little sign of a slowdown. This would lead to a relatively strong yen in the second half, but the daily trade volume in the won/dollar market in Korea will increase after the large-scale foreign exchange liberalization and the effect of the government indirect intervention will significantly decrease. Moreover, the inflow of foreign direct investment after the completion of restructuring will speed up won's appreciation furthermore. The won/100 yen rate is likely to post around 990 won for the year. **VIP**

Figure 1. Won/100Yen Exchange rate

