

RISING WON AND THE STOCK MARKET RECOVERY

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Continued interest rate fluctuation

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The market interest rate, which was on a downtrend due to concerns of a delayed economic recovery, made a brief upturn due to the monetary authority's rapid increase of call rates as well as a surge in the yield of US national bonds. The market interest rate fell again however, with the bearish US stock market and a mass selling trend in US bond markets as well as the weak domestic stock market.

Interest rates are expected to rise slightly due to inflationary pressures related to increased market liquidity, as well as upward pressure on bank interest rates with the hike in call rates.

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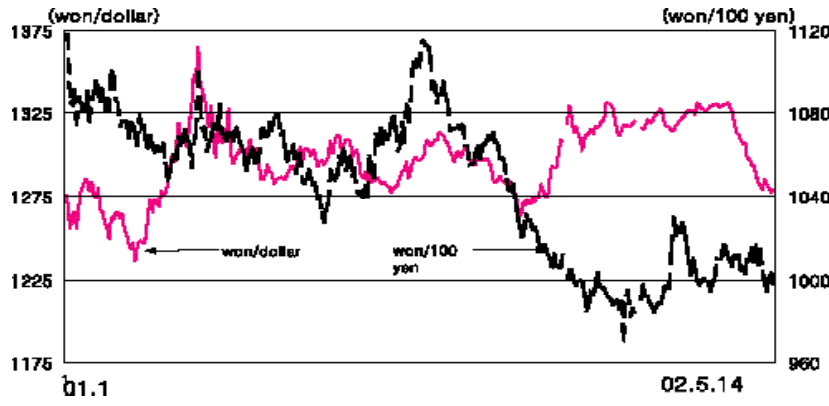
Consumption and construction investment are leading the economic recovery, and the service sector is continuing its upturn. An expansion of exports and smooth recovery of facility investment are also expected. Due to factors such as net liquidity (M3) exceeding the yearly observation range, the steep rise in real estate prices and rebound in world oil prices, and the expectation that banks will raise their interest rates, and an upturn in market interest rates is expected.

Trend of rising won

The won/dollar rate is currently falling due to a weakening dollar resulting from uncertainty in the US economy and adjustments in the US stock market. The dollar has recently weakened due to a slowdown in consumption, and US companies' poor performance. The yen/dollar rate is leading the weakening of the dollar, recently falling to 124 yen/dollar, and the won/dollar rate also fell to the 1,240 won/dollar level.

In the long term, the won/dollar rate is expected to continue fluctuating with the movement of the yen/dollar rate. The yen/dollar rate will be sensitive to US economic indicators as well as prospects for the Japanese economy's recovery and conditions in the US stock market. If the US stock market stabilizes, the yen/dollar rate is likely to make a brief recovery, and this may cause the won/dollar rate to make a slight upward adjustment. The won/dollar rate will be strongly affected by US economic figures such as the trade balance and corporate performance, and the rate is expected to fluctuate between 1,240-1,250 won/dollar until a clear US economic trend appears in the US economy.

Figure 1. Recent Won/Dollar and Yen/Dollar Rates



Stock market outlook

Domestic stock prices saw an overall downtrend due to factors such as uncertainty in the US economy and a fall in semiconductor prices. As a result of the bearish US stock market and fall in semiconductor prices, foreigners continued their selling trend and caused the Korea Stock Price Index to plummet, but a brief recovery was seen due to a temporary surge in the US bourse. Fluctuation continues, with stock prices falling as a result of UBS Warburg’s downward adjustment of Samsung Electronics’ investment grade, followed by an uptrend due to a surge in the US markets.

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The US economy seems to be making an overall recovery, along with Europe, and the Japanese economy’s recession is showing signs of improvement. With the worldwide economic recovery as well as the gradual stabilization of the exchange rate and semiconductor prices, stock prices are expected to show a steady uptrend. **VIP**

Figure 2. Korea Stock Price Index and Volume

