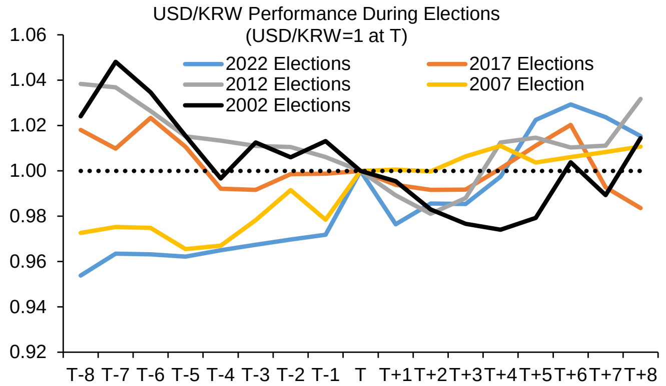
Mizuho Chart Speak: Korea

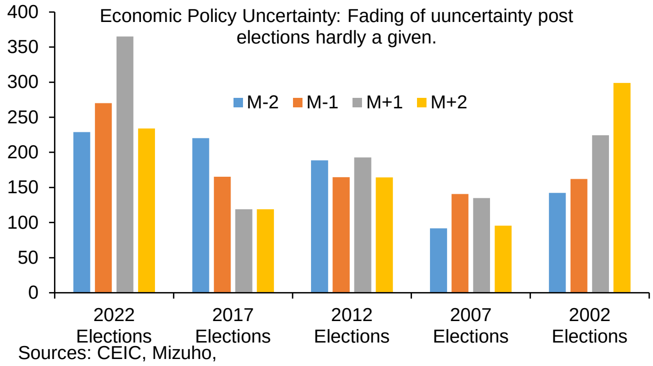
Economics & Strategy | Asia ex-Japan

4 April 2025 | Tan Boon Heng | Market Economist

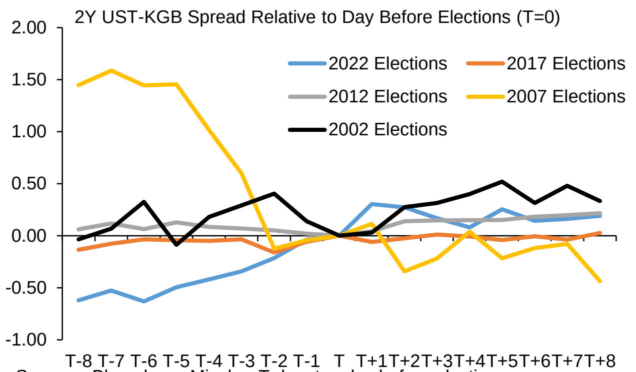
KRW and Elections: Barely Stylised



Sources: Bloomberg, Mizuho. T denotes day before elections.
T-1 denotes a week before elections



Sources: CEIC, Mizuho,
Note: Data is in montly frequently, M-1 indicates the month prior to the election or the month of election if the date of election is in the second half of the month.



Sources: Bloomberg, Mizuho. T denotes day before elections.
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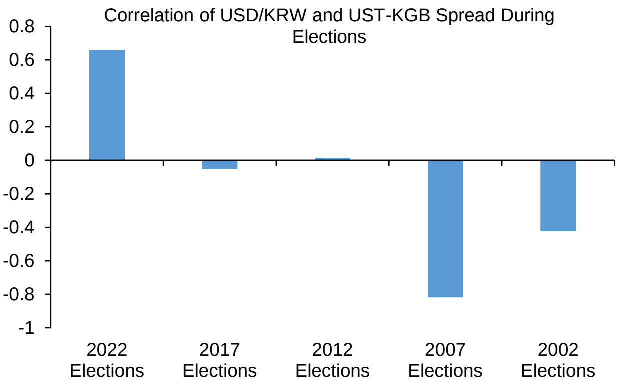

Sources: Bloomberg, Mizuho.Note: Time Period spans 4 months, 2 months prior and 2 months post elections

- After a prolonged period of political uncertainty, Korea looks to be headed for snap elections within the next two months after President Yoon's **impeachment in a unanimous decision by the Constitutional court today**. Our examination of KRW performance during presidential elections (+/- 2 months) over the past two decade reveal **that generalizations around stylized facts of FX movements are hardly consistent** across these periods. In short, KRW performance were reflective of the idiosyncratic circumstances during those instances.
- First, **there is no clear distinction of KRW performance prior and post elections**. This is perhaps not surprising given the policy uncertainty showed no significant difference before and after elections. Nonetheless, this does not fade the efficacy of political uncertainty on KRW as we had cleared observed its impact during the martial law episode in late 2024.
- Second, **received wisdom around UST-KGB spreads driving KRW performance has barely held up**. Expected positive correlation between UST-KGB spread and KRW was only observed in the latest 2022 election. In fact, 2007 and 2002 elections showed sharp negative correlations.
- Lastly, it is on this note that warrants a closer examination of the **circumstances of each of these elections to elicit the appropriate reminders**. During the late 2002 elections, Korea was undergoing a brewing credit card crisis which may have sent domestic yields lower.
- While in 2007, it was external circumstances during the GFC which saw the FED embarks on sharp rate cuts that led to a narrower UST-KGB spread. Nonetheless, the **risk off sentiments imply that the KRW was not able to ride on the seemingly favorable tailwinds from lower UST yields.**
- As for the current environment, beyond the initial reaction from the unanimous court ruling, reciprocal tariffs and risk off mood would set the tone to restrain the KRW even as likelihood of reduced political uncertainty is welcomed.

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