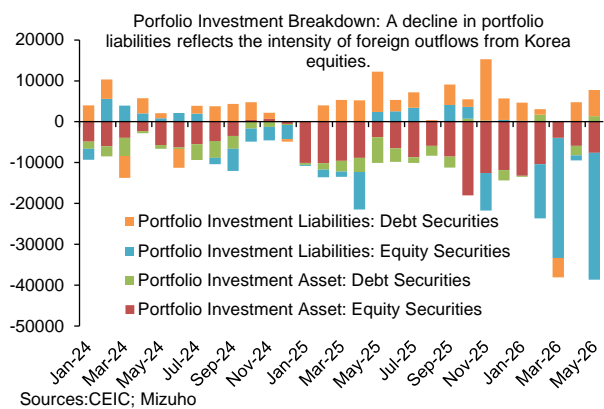
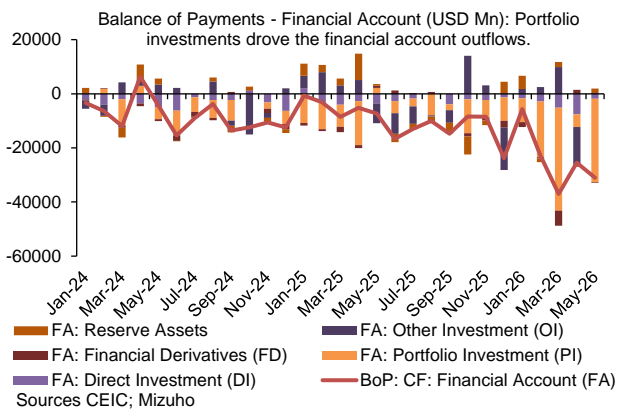
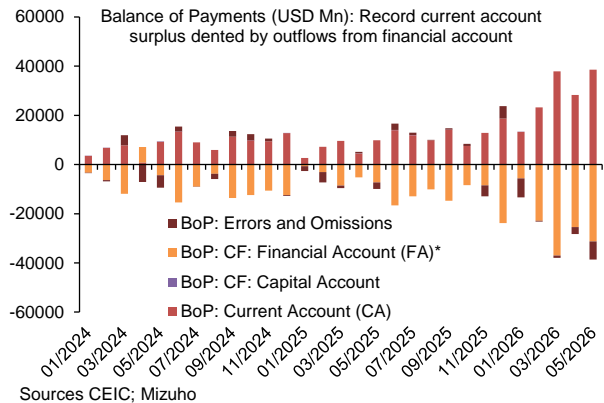
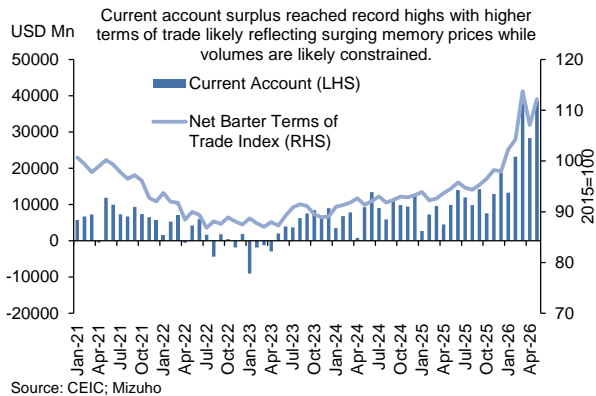


## KRW: Current Account Surplus – Tailwinds Dampened



- This morning, **Korea's current account surplus reaching record highs** of US\$38bn for May is hardly surprising given the strength of the semiconductor cycle. The multi-fold surge in memory prices has accentuated their current account surplus gains with much improved terms of trade.
- Despite these favourable current account tailwinds, the **KRW has continued to underperform** in recent months.
- A broader examination via the Balance of Payments perspective reveals the **sheer intensity of drag from foreigners selling domestic equities**. Specifically, the net **financial account outflows amounted to US\$31bn in May** driven largely by portfolio investment outflows.
- Diving into the asset-liabilities details, these outflows came on the back of a US\$24.6bn **decline in liabilities** to foreign residents while the accumulation by Korean residents of foreign assets amounted to US\$6.2bn.
- The **instrument split also showed that non-residents (foreigners) selling of equities securities reached US\$31bn in May** which would offset 80% of the current account inflows. Meanwhile, there was US\$6.4bn of foreign inflows in Korean debt securities into May.
- **Evidently, deteriorating risks sentiments and accentuated asset price volatility hinder KRW's recovery.**
- To be clear, while foreign selling of Korean equities accounts for much of the recent KRW's underperformance, the **steady portfolio investment foreign asset accumulation of debt securities throughout the year** amid household and institutional demand represent structural drags as well.
- All in, while the AI-led exports boom continues to boost economic activity which avails space for the **BoK's imminent rate hike**, the KRW remains stymied by the wild swings in equities dampening supposed current account tailwinds. The authorities' intervention efforts being critical to provide backstop for the KRW to tide through swings between AI euphoria and meltdowns.

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