

FSC HOLDS MEETING OVER RECENT GLOBAL FINANCIAL MARKET CONDITION & ITS IMPACT ON KOREA'S STOCK MARKET

The FSC held a meeting with the FSS, KRX, and KCIF at 8 a.m. on August 21 to discuss recent global financial market condition and its impact on Korea's stock market.

GLOBAL FINANCIAL MARKET CONDITION

Global stock markets recently went down with heightening global risk factors such as China's stumbling stock market, its currency devaluation and speculation about the Fed's rate hike.

- Stock markets in major economies mostly went on a downward trend since June this year. Emerging markets slumped further compared to advanced ones.

* Falls in stock markets in June compared to end-May 2015

US	UK	Germany	Korea	China	Hong Kong	Taiwan
- 5.7%	- 8.8%	- 8.6%	- 9.5%	- 20.5%	- 17.0%	- 17.2%

- Global stock funds are flowing into advanced market out of emerging markets amid growing uncertainty over global financial condition.

* Flows of global stock funds in recent 4 weeks

Emerging markets	USD 13.05 billion outflows
Advanced markets	USD 19.3 billion inflows

IMPACT ON KOREA'S STOCK MARKET

Volatility in Korean stock market has increased recently as foreign investors began to sell and stock prices stumbled with growing external uncertainty.

- Foreign investors have turned net sellers of KRW 4.3 trillion KOSPI shares since June this year as external uncertainties heightened.

* Foreign Investors' net purchase in KOSPI (2015)

January~May	June~August
KRW 9.6 trillion	- KRW 4.3 trillion

- The KOSPI and KOSDAQ indexes have slumped recently.

* **KOSPI:** 1,916(end-2014) → 2,173(April 23, 2015) → 1,915(August 20, 2015)
KOSDAQ: 543(end-2014) → 783(July 20, 2015) → 657 (August 20, 2015)

Recent adjustments in stock market prices are seen largely due to external factors such as diminishing global market confidence, rather than domestic market factors.

- While foreign investors are selling shares in most of Asian stock markets, the amount of net sales by foreigners in Korean stock market is relatively small.

* **Foreign investors' net sales compared to market capitalization in Asia's emerging markets (June~July, 2015)**

Korea	Thailand	Taiwan	Malaysia
0.23%	0.30%	0.50%	0.44%

- Korea's stock market indexes did not fall sharply, compared to those of Asia's major markets.

* **Changes in stock market prices (compared to end-May 2015)**

Korea	China	Hong Kong	Taiwan
- 9.5%	- 20.5%	- 17.0%	- 17.2%

Market fundamentals in Korea are sound, and global financial markets remain stable in comparison to previous market turmoil in 2011 and 2013. We see market participants do not have to react excessively to recent market developments.

- Korean stock prices are relatively undervalued. Korea's foreign exchange reserves stood at USD 374.7 billion, the world's sixth largest as of the end of June, 2015.

* **PER in major stock markets**

Korea	US	UK	Hong Kong	Thailand
9.4	16.9	15.0	14.4	11.9

- Korea's CDS, which surged to 688 in October 2008 during the global crisis and 220 in September 2011 following the first ever downgrade of US credit rating.

- Foreign investors' net sales are modest, compared to those after the downgrade of US credit rating in 2011 and the tapering of the US's quantitative easing(OE) program in 2013.

* **Foreign investors' net sales in Korean stock market**

August ~ September 2011 (Downgrade of the US credit rating)	March ~ June 2013 (The tapering of the US QE)	June ~ August 2015
KRW 5.9 trillion	KRW 9.1 trillion	KRW 4.3 trillion

- The impact on the market from the exchange of fire between South and North Korea on August 20 will be short-lived, given previous incidents of military tension between the two Korea.

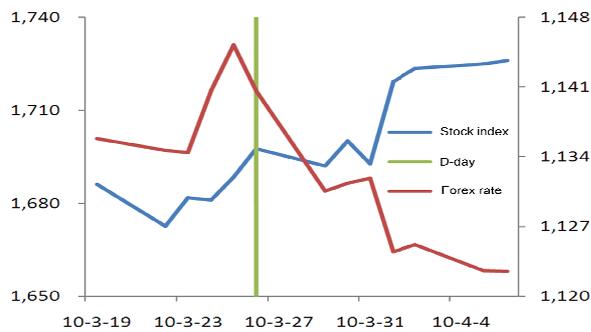
* Stock market recovered shortly after a 0.3% drop on the day of the Cheonan incident in March, 2010.

There are still external factors that might affect domestic markets such as China's stock market volatility and a possible US rate hike.

- The government will strengthen monitoring and take actions, if necessary, in order to prevent recent global market uncertainty from causing excessive volatility in Korea's stock market.

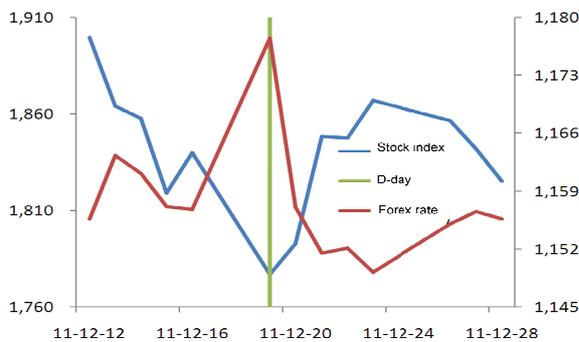
Fluctuation in stock index and exchange rate during past NK incidents

Cheonan Incident (Mar. 26, 2010)



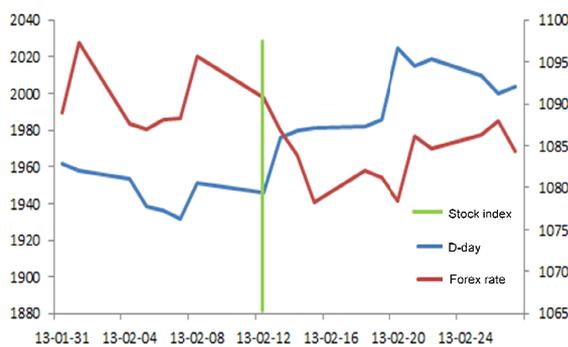
Stock index on D-day	Stock index during 5 days after D-day	Fx rate on D-day	Fx rate during 5 days after D-day
↓	↑	↓	↓

Kim Jong Il's death (Dec. 19, 2011)



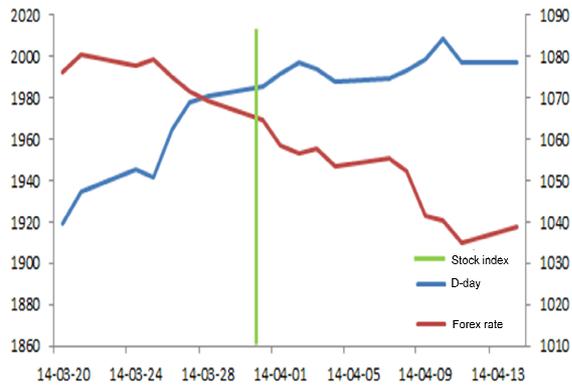
Stock index on D-day	Stock index during 5 days after D-day	Fx rate on D-day	Fx rate during 5 days after D-day
↓	↑	↑	↓

3rd nuclear test (Feb. 12, 2013)



Stock index on D-day	Stock index during 5 days after D-day	Fx rate on D-day	Fx rate during 5 days after D-day
↓	↑	↓	↓

NK's fire drill on West Sea (Mar. 31, 2014)



Stock index on D-day	Stock index during 5 days after D-day	Fx rate on D-day	Fx rate during 5 days after D-day
↑	↑	↓	↓

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