

FSC ANNOUNCES ANALYSIS ON STOCK MARKETS WITH PARTIAL RESUMPTION OF SHORT SELLING

With the partial resumption of short selling being in place for about a month, the FSC announced an analysis on stock market trends for the period of May 3 to June 2. During this period, stock prices moved in a similar pattern as global stock markets while domestic stock prices showed relatively stable movements compared to other markets. Although the average daily amount of short selling transactions rose somewhat, it appears that there exists no significant relationship between short selling and stock prices for the given period. The FSC and other relevant institutions will continue to closely monitor market trends while working to bring about transparency and fairness in the markets.

STOCK MARKET TRENDS

As of June 2, KOSPI and KOSDAQ's closing prices were up 2.4 percent and down 0.2 percent, respectively, compared to April 30, the last trading day before the partial resumption of short selling began. In May, global stock prices showed mixed trends with the possibility of tapering by the Fed amid price increases in the U.S. Asian stock markets moved in the same direction as global stocks while domestic stock markets showed relatively stable trends as corporate earnings improved and retail investors remained net buyers.

In May, foreigners net sold KRW9 trillion but turned to net buying in the last week of the month. Due to concerns about a monetary tightening from the U.S., other Asian markets also experienced foreign outflows.

SHORT SELLING TRENDS

During the one-month period from May 3 to June 2, the average daily amount of short selling transactions increased somewhat to KRW688.2 billion. However, considering the fact that the total transaction amount increased more than twice the level seen before the partial resumption of short selling began, the growth is not that considerable.¹ Also, as the built-up demand for short selling begins to fade out, the growth in the amount of short selling transactions also shows a downward trend toward stability. During the one-month period, the ratio of short selling amount to total

¹ Average daily amount of short selling transactions (in billion won): 391.3 (2017) → 524.8 (2018) → 420.7 (2019) → 654.2 (Mar 2020) → 688.2 (May to Jun 2, 2021)
Average total amount of transactions (in trillion won): 9.0 (2017) → 11.5 (2018) → 9.3 (2019) → 13.7 (Mar 2020) → 25.4 (May to Jun 2, 2021)

transaction amount fell about 40 percent from before to stand at 2.7 percent.²

During the one-month period, the partial resumption of short selling appears to have had no significant effects on stock prices. Among the top ten most shorted stocks, no regularities were found between the movement of stock prices and short selling.

SHORT SELLING TRENDS BY INVESTOR TYPE

The average daily amount of short selling transactions by foreigners was KRW582.7 billion, or about 84.7 percent of the total. According to market experts, the rise in short selling transactions by foreigners could be due to the long-short strategies becoming more prevalent.

In the same period, institutional investors shorted about KRW94.2 billion in shares daily on average, which was down about 67 percent from the average daily amount of KRW286.0 billion in the period of January to March 2020. This can be seen as a result of the measure that bans market makers from engaging in short selling of mini-KOSPI 200 futures and options when acting in their capacity as market makers.³

For retail investors using the newly established securities lending system, the average daily short selling transaction amount stood at KRW11.3 billion, up about 45 percent from before.

ASSESSMENT ON RELEVANT MEASURES

The FSC and the KRX have been closely monitoring markets to prevent illegal short selling activities. Based on its own analysis, the KRX has carried out close inspections on some 300 cases for violation of short selling rules. In addition, the KRX is maintaining close surveillance on some 600 cases for naked short selling, etc.

As the authorities introduced measures to improve rules on market makers, the market makers' share in short selling has been reduced significantly. Also, the proportion of market makers' trades in low liquidity shares has increased. With greater disclosure requirements for market makers regarding their transactions activities, the authorities are also working to increase transparency in market makers' trading activities and improve investor confidence.

FURTHER PLANS

The resumption of short selling on KOSPI 200 and KOSDAQ 150 stocks appears to have taken root in a stable way amid a recovering economy and favorable macroeconomic and stock market conditions. Various indicators including stock prices, short selling transaction amounts and volatility indexes are all moving within their normal boundaries and no market anxiety or abnormality has been detected.

² Ratio of short selling amount to total transaction amount: 4.4%(2017) → 4.7% (2018) → 4.6% (Jan to Mar 2020) → 2.7% (May to Jun 2021)

³ Please click [here](#) to see the press release dated December 21, 2020.

Average daily amount of short selling transactions by market makers (in billion won): 104.5 (2019~Mar 13, 2020) → 18.8 (May 3~Jun 2, 2021)

The FSC and other relevant institutions will continue to closely monitor market trends while working to bring about transparency and fairness in the markets. From June 1, the FSC has been conducting inspections on each securities firm's illegal short selling monitoring system and the Korea Exchange's market surveillance committee has been conducting its own analysis to detect any abnormality in transactions. In addition, the authorities plan to actively seek improvements in regulations to minimize any inconveniences associated with short selling by retail investors. In this regard, the authorities will expand the number of securities firms offering stock lending services to all 28 securities firms that handle credit lending services.

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For press inquiry, please contact Foreign Media Relations at fsc_media@korea.kr.