

FSC VICE CHAIRMAN'S REMARKS ON DOMESTIC FINANCIAL MARKET CONDITIONS

FSC Vice Chairman Sohn Byungdoo held a meeting with financial investment experts on August 6th to review the current conditions of Korea's stock markets and discuss measures to mitigate short-term shocks.

Vice Chairman's remarks

Current condition of domestic and global financial markets

Korea's financial markets experienced volatility yesterday due to multiple domestic and external factors. Such trend is not confined to Korea, however, as global financial markets fluctuated as well due to multiple reasons such as: expectations that the U.S.- China trade dispute would be prolonged; concerns on sluggish global growth; and uncertainties regarding the U.S. rate cut. Domestically, Japan's trade measures, major exporters' worsened profit, and MSCI rebalancing posed additional impact.

Moreover, China's yuan weakened pass the psychological threshold of 7 RMB against the dollar, resulting to an increased volatility in won-dollar exchange rate. Announcement that the U.S. labeled China as a currency manipulator deepened concerns that the bilateral trade dispute would spillover to currency issues, resulting to a sharp drop in major stock markets such as Japan (↓2.7%) and Australia(↓3.0%).

Measures to stabilize domestic financial markets

Worsened investor sentiment due to increased uncertainties is analyzed to have resulted in such stock market volatility.

However, Korea's financial markets are maintaining solid fundamentals¹ after overcoming the 2008 global financial crisis and financial market turmoil in 2016 resulting from Brexit uncertainties.

Moreover, there has been no overshoot in Korea's stock markets even in times of global liquidity expansion. Korea's stock markets are tend to be undervalued despite that price book-value ratio(PBR)² is relatively low compared to global stock markets.

¹ Foreign exchange reserve(\$billion): ('97)20.4, ('08)239.7, (July,'19) 403.1

Short-term external debt(%): ('97)286.1, ('08)84.0, (Mar,'19) 31.6

CDS(5 yrs, bp): (end-'16)44.3, (end-'17)52.2, (end-'18)39.5, (Aug.5,'19)33.31

² PBR (Aug.2,'19): (Korea)0.84, (U.S.)3.36, (Japan)1.19, (Hong Kong)1.24, (Singapore)1.24, (U.K.)1.72, (China)1.54, (Taiwan)1.7

The government already has contingency plans fully prepared according to each possible scenario.

The FSC will strengthen the role of securities-related institutions and institutional investors to stabilize supply and demand of stock markets, and mitigate market volatilities. Moreover, the FSC will consider every possible policy option including easing rules on share buyback, tightening stock short-selling regulations, and reducing daily stock price limit.

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