

# **Market Report for Republic of Korea**

**November 2012**

**Korea Financial Investment Association**

## **I. Economic and Financial Background**

### **1. General Economic Development**

Real gross domestic product (chained volume measure of GDP) increased 3.6 percent in the year 2011. Growth in real GDP was mainly due to the continuous strength of exports, while construction investment slumped and the rates of increase in private consumption and facilities investment slowed.

Real gross national income (chained volume measure of GNI) increased 1.5 percent over the previous year, lower than the growth of real GDP due to the deterioration of the terms of trade.

In 2011, agriculture, forestry & fishing decreased by 2.0 percent, owing mostly to the influence of severe weather conditions and outbreaks of foot-and-mouth disease. Manufacturing rose by 7.2 percent, with general machinery, transport equipment and metal products posting strong output gains. Construction showed negative growth of 4.6 percent, as the sluggishness of residential building construction and civil engineering continued in addition to the slower growth of non-residential building construction. Services increased 2.6 percent, as growth picked up in real estate & renting and information & communication; growth slowed however in other sectors such as wholesale & retail trade and transport & storage, while the restaurants & hotels sector saw a downturn.

In 2011, private consumption increased 2.3 percent. While durables and semi-durables expenditures showed solid growth, expenditures on non-durables and services grew at a slower pace.

Gross fixed capital formation decreased by 1.1 percent. Construction investment dropped by 5.0 percent, mainly owing to the contraction of residential construction and civil engineering investment. In contrast, facilities investment increased by 3.7 percent in response to the rise in machinery investment.

Exports of goods & services grew by 9.5 percent, led by those of automobiles, machinery and iron & steel products.

In 2011, gross domestic product at current prices (nominal GDP) increased 5.4 percent to record 1,237.1 trillion won. Per capita GNI grew by US\$ 1,927 to US\$ 22,489 from US\$ 20,562 in 2010.

In 2011, the GDP deflator rose by 1.7 percent, down from 3.6% the previous year, as the rates of increase in the prices of export and domestic goods fell short of that for imported goods.

The gross saving ratio decreased by 0.4 of a percentage point from 32.1 percent in 2010 to 31.7 percent in 2011, led downward by the private sector. The gross domestic investment ratio likewise dropped slightly from 29.6 percent to 29.4 percent.

Inflation languished above 4% in 2011. Surging commodity prices in the first half of the year and service price hikes in the second half were the main culprits. In particular, prices of food, transportation and fuel, which account for a large share of household expenditures of ordinary people, increased relatively sharply, making the lives of low-income brackets much more difficult

Sluggish domestic consumption dented economic growth. Rising inflation reduced real income, contracting consumer sentiment and consumption. A slower pace in export growth and rising uncertainty over the global economy also dampened investment sentiment, leading to a sharp deceleration of facilities investment. Moreover, continuous softness in the housing market and less infrastructure spending crimped investment in civil engineering, which led to a downward spiral in construction investment in 2011. As a result, in 2011, domestic demand rose only 0.7%, and GDP growth remained at 3.6%, falling short of expectations.

## **2. Financial Environment**

The KOSPI Market started as a bull market in 2011 with expecting the reflection benefit from the restoration of the Great Eastern Japan Earthquake of March, 2011. However, for the third quarter of the year, the value of stock market was highly deteriorated due to the sovereign shock of U.S. and Europe area, and Side Car was triggered on 9th August to avoid sudden decline in stock price.

In 2011, average daily trading value of KOSPI Market was KRW 6,863 billion which is 22.1% increase from year earlier. The total market capitalization ended at KRW 1,042 trillion which is 8.7% decrease from the end of 2010.

KOSPI200 futures showed a sharp fall due to the instability of the Middle East and the Japan Earthquake and recovered to the highest point of the year owing to the sign of economic recovery. It tumbled down to the lowest point(214.35p) in August by the downgrade of U.S. sovereign credit ratings and European debt crisis. After then, KOSPI200 futures fluctuated by favorable and unfavorable factors and closed by 238.60p, a decrease of 12.9% from 2010.

Even though the interest rate rose sharply at the beginning of 2011 after raising the base rate by the Monetary Policy Committee, it continued to decline owing to the flight to quality following the Great Japan Earthquake. The rate of 3-year KTB was 3.34% at the end of 2011, 0.04%p lower than that of 2010 (3.38%). The rate of corporate bond also showed the similar downtrend. For the primary market, total issue amount of 2011 was KRW 541.4 trillion (a decrease of KRW 33.7 trillion from 2010) and the amount outstanding at the end of 2011 was KRW 1,201.7 trillion, showing an increase of KRW 84.9 trillion (+7.6%) from a year ago.

## II. Economic Performance and Prospects

### 1. GDP Growth

Korea's real gross domestic product (GDP) expanded by 0.3 percent quarter-on-quarter and 2.3 percent year-on-year in the second quarter of 2012. The numbers were revised downward by 0.1 percentage points each from the advanced estimates released a month ago.

On the production side, manufacturing and construction contracted by 0.2 percent and 2.7 percent, respectively. Services expanded by 0.5 percent, led by finance & insurance, information & communications, and healthcare & social welfare.

On the expenditure side, private consumption grew by 0.4 percent due to increased expenditures on durable and semi-durable goods. Facility investment and construction investment fell by 7.0 percent and 0.4 percent each. Exports fell by 1.4 percent, led by automobiles and petrochemical products, while imports fell by 1.8 percent due to lower demand for electronics and general machinery.

The real gross national income (GNI) rose 1.2 percent from the previous quarter, helped by improving terms of trade. The nominal GNI, however, fell by 0.2 percent.

#### <GDP by production and expenditure\*>

(Percentage change from previous period)

	2010				2011 <sup>1</sup>				2012 <sup>1</sup>	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
GDP	2.2(8.7) <sup>2</sup>	1.4(7.6)	0.7(4.5)	0.6(4.9)	1.3(4.2)	0.8(3.5)	0.8(3.6)	0.3(3.3)	0.9(2.8)	0.3(2.3)
Manufacturing	4.2	3.7	2.1	0.5	3.3	1.2	1.1	-0.3	2.0	-0.2
Construction	0.5	-0.7	-1.8	-2.6	-4.3	1.8	2.8	-0.2	-1.7	-2.7
Services	1.7	0.3	0.4	1.0	1.0	0.3	0.4	0.7	1.1	0.5
Private consumption	0.7	0.7	1.2	0.4	0.6	0.8	0.2	-0.4	1.0	0.4
Government consumption	3.0	0.3	-0.2	0.5	0.7	0.8	1.2	-0.8	3.4	-0.3
Facility investment	4.4	7.3	4.6	-0.2	-1.6	4.7	-1.8	-4.3	10.3	-7.0
Construction investment	1.0	-4.0	-0.9	-1.9	-4.4	3.5	-0.5	0.1	-1.2	-0.4
Goods exports <sup>4</sup>	3.2	7.3	2.6	3.2	4.1	0.4	2.1	-2.7	4.2	-1.4
Goods imports <sup>4</sup>	5.3	6.2	3.4	0.4	3.2	2.7	1.4	-3.6	4.0	-1.8
Real Goss National Income	1.6	1.4	0.1	0.0	0.0	0.7	0.6	1.0	0.2	1.2

\*At 2005 chained prices in seasonally adjusted terms

1. Preliminary

2. Percentage changes from the same period in the previous year in original terms

3. Wholesale & retail, hotels & restaurants, transportation & storage, communication services, financial & insurance services, real estate & renting, business services, public administration, defense & social security, educational services, healthcare & social welfare services, entertainment, cultural & sports services and other services are included.

4. FOB basis

## 2. Exports and Imports

Exports in 2011 increased 19.0 percent to US\$555.21 billion and in the first half of 2012, Korea's exports totaled US\$275.22 billion. Exports in August 2012 turned negative year-on-year again following July as exports of major items such as mobile phones (*down 34.7%*), vessels (*down 34.2%*), automobiles (*down 21.7%*), and steel (*down 10.8%*) tumbled. In August, when most people go on vacation, average daily exports typically fall because actual working days decrease.

Imports in 2011 increased 23.3 percent to US\$524.41 billion. Imports in August fell 9.8 percent (*preliminary*) year-on-year to US\$40.93 billion. Imports of capital goods (*down 18.2%*) including semiconductor equipment, consumer goods (*down 11.6%*), and commodities (*down 7.8%*) all decreased year-on-year.

(US\$ billion)

	2010		2011				2012				
	Annual	Annual	Q1	Q2	Q3	Q4	Q1	Q2	Jul	Aug <sup>1</sup>	Jan-Aug <sup>1</sup>
Exports	466.38	555.21	130.99	142.69	141.24	140.37	134.89	140.33	44.64	42.97	362.79
(y-o-y, %)	19.6	19.0	29.6	18.7	21.4	9.0	3.0	-1.6	-8.8	-6.2	-1.5
Average daily exports	1.70	2.01	1.98	2.08	2.03	1.98	1.97	2.09	1.86	1.79	1.98
Imports	425.21	524.41	123.91	134.29	134.92	131.26	133.40	131.11	42.34	40.93	347.21
(y-o-y, %)	31.6	23.3	26.1	27.2	27.7	13.4	7.6	-2.4	-5.4	-9.8	-0.2
Average daily imports	1.46	1.91	1.87	1.96	1.96	1.85	1.95	1.96	1.76	1.71	1.89

1. Preliminary

Source: Korea Customs Service

The current account balance in 2011 recorded a surplus of US \$30.80 billion and in August 2011 it posed a surplus of US\$2.04 billion.

(US\$ billion)

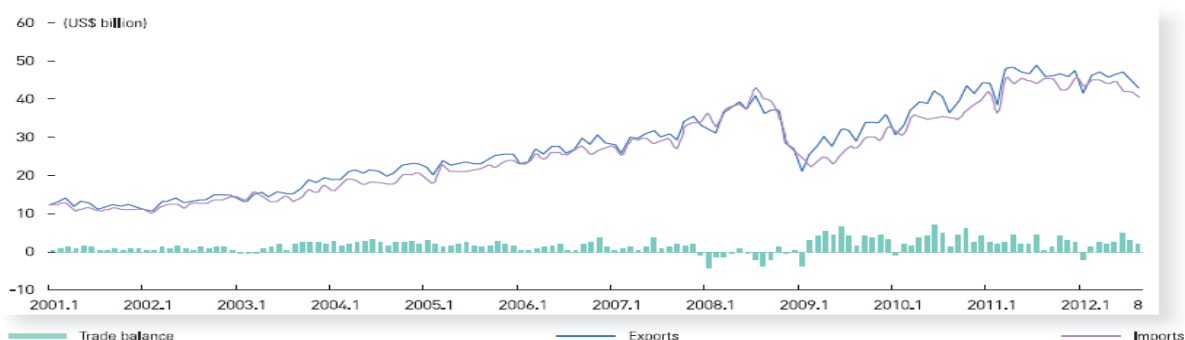
	2010		2011				2012				
	Annual	Annual	Q1	Q2	Q3	Q4	Q1	Q2	Jul	Aug <sup>1</sup>	Jan-Aug <sup>1</sup>
Trade balance	41.17	30.80	7.08	8.40	6.30	9.16	1.45	9.22	2.76	2.04	15.58

1. Preliminary

Source: Korea Customs Service

### Exports and imports

Source: Korea Customs Service & Ministry of Knowledge Economy (export and import trend)



### 3. Employment

The number of workers on payroll in 2011 increased by 415,000 from 2010, while the employment rate (seasonally adjusted) rose by 0.4 percentage points to 59.1 percent. In July 2012, the number increased by 470,000 from a year earlier, while the employment rate rose by 0.3 percentage points to 59.4 percents.

	2010			2011						2012			
	Annual	Q3	Q4	Annual	Jul	Q1	Q2	Q3	Q4	Jun	Jul	Q1	Q2
Number of employed (million)	23.83	24.12	23.99	24.24	24.64	23.46	24.57	24.48	24.46	25.12	25.11	23.93	25.00
Employment rate (%)	58.7	59.3	58.9	59.1	60.0	57.4	59.9	59.5	59.4	60.4	60.3	57.8	60.2
(Seasonally adjusted)	58.7	58.9	58.7	59.1	59.1	58.8	59.1	59.1	59.2	59.3	59.4	59.3	59.4
Employment growth (y-o-y, thousand)	323	369	358	415	335	423	402	363	474	365	470	467	430
(Excluding agriculture, forestry & fishery)	405	414	393	440	390	451	399	414	497	386	457	498	454
- Manufacturing	191	262	269	63	40	228	112	-12	-75	-51	34	-102	-66
- Construction	33	92	57	-2	-55	-3	-41	-35	71	14	27	79	33
- Services	200	83	80	386	410	224	331	472	514	416	394	541	491
- Agriculture, forestry & fishery	-82	-45	-35	-25	-55	-28	3	-51	-23	-21	13	-31	-24
- Wage workers	517	541	532	427	439	519	421	392	374	212	244	360	281
· Regular workers	697	671	699	575	611	605	621	572	500	441	435	413	379
· Temporary workers	-34	-26	-114	-78	-78	-88	-137	-76	-10	-38	-56	110	73
· Daily workers	-146	-104	-53	-70	-94	2	-63	-104	-115	-191	-135	-163	-171
- Non-wage workers	-194	-172	-174	-11	-104	-96	-19	-29	100	153	227	108	150
· Self-employed workers	-118	-130	-146	1	-39	-115	-39	34	125	169	196	149	173
- Male	181	207	212	238	175	266	221	208	257	207	276	238	242
- Female	142	163	146	177	160	157	181	155	216	158	194	230	188
- 15 to 29	-43	-44	-57	-35	-44	-49	-74	-1	-18	-29	-30	1	-8
- 30 to 39	-4	21	17	-47	-52	-34	-13	-83	-56	-70	-7	-65	-80
- 40 to 49	29	40	50	57	63	77	59	46	47	-4	-19	28	8
- 50 to 59	294	295	287	291	269	286	294	270	315	246	275	326	260
- 60 or more	47	57	60	149	98	143	137	131	185	222	251	178	251

Source: Statistics Korea

The number of unemployed persons in 2011 decreased by 65,000 to 855,000 and the unemployment rate (seasonally adjusted) decreased by 0.3 percentage points to 3.4 percent. The number of unemployed persons decreased by 42,000 year-on-year to 795,000 in July 2012, while the unemployment rate fell 0.2 percentage points year-on-year to 3.1 percent.

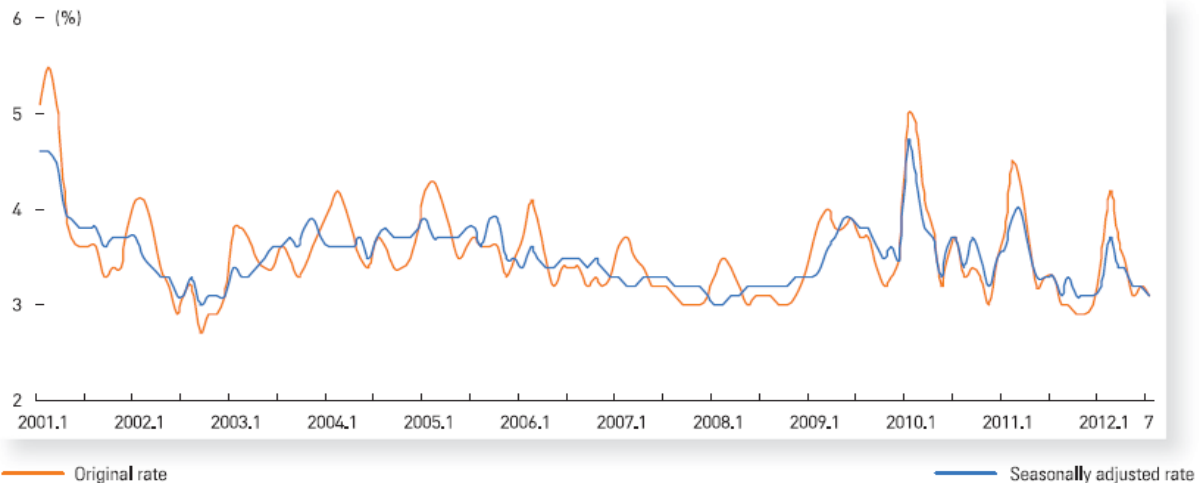
The youth unemployment rate in 2011 and July 2012 was at 7.6 percent and 7.3 percent respectively. Recently the youth unemployment rate declined 0.3 percentage points year-on-year to 7.3 percent.

	2010			2011						2012			
	Annual	Q3	Q4	Annual	Jul	Q1	Q2	Q3	Q4	Jun	Jul	Q1	Q2
Number of unemployed (thousand)	920	873	808	855	837	1,028	865	786	740	822	795	947	841
Unemployment growth (y-o-y, thousand)	31	-13	-10	-65	-95	-101	-3	-88	-68	-17	-42	-82	-23
- Male	-7	-48	-16	-48	-68	-70	-32	-48	-41	-1	-29	-54	-19
- Female	38	35	6	-17	-27	-32	29	-40	-27	-16	-13	-28	-4
Unemployment rate (%)	3.7	3.5	3.3	3.4	3.3	4.2	3.4	3.1	2.9	3.2	3.1	3.8	3.3
(Seasonally adjusted)	3.7	3.6	3.4	3.4	3.3	3.8	3.4	3.2	3.1	3.2	3.1	3.5	3.3
- 15 to 29	8.0	7.6	7.1	7.6	7.6	8.8	7.9	6.7	7.1	7.7	7.3	8.2	8.1
- 30 to 39	3.5	3.5	3.2	3.4	3.1	4.0	3.5	3.2	2.9	3.0	2.9	3.2	3.2
- 40 to 49	2.5	2.5	2.2	2.1	2.0	2.5	2.1	2.0	1.9	2.1	1.8	2.4	2.0
- 50 to 59	2.5	2.3	2.3	2.1	2.0	2.7	2.0	2.1	1.8	2.0	2.1	2.3	2.0
- 60 or more	2.8	2.0	1.9	2.6	2.5	4.5	2.3	2.1	1.8	1.9	2.0	4.4	2.0

Source: Statistics Korea

### Unemployment rate

Source: Statistics Korea (employment trend)



## 4. Balance of Payments

Korea's current account surplus in 2011 narrowed from the previous year's US\$29.39 billion to US\$26.51 billion. For the first half of 2012, the amount recorded US\$13.7 billion.

(US\$ billion)

	2010		2011				2012				
	Annual	Annual	Q1	Q2	Q3	Q4	Q1	Q2	Jun	Jul <sup>1</sup>	Jan-Jul <sup>1</sup>
Current account	29.39	26.51	2.61	5.49	7.00	11.52	2.56	11.14	5.88	6.10	19.85
- Goods balance	40.08	30.95	5.84	7.66	7.20	10.25	2.62	8.48	5.05	5.32	16.45
- Service balance	-8.63	-4.38	-2.54	-0.80	-1.20	0.15	-0.65	2.31	0.17	0.58	2.24
- Income balance	1.02	2.46	0.39	-0.82	1.31	1.58	1.48	0.82	0.90	0.40	2.71
Current transfer	-3.08	-2.52	1.08	-0.55	-0.42	-0.47	-0.89	-0.47	-0.25	-0.19	-1.55

1. Preliminary Source: The Bank of Korea



## 5. Prices

Consumer prices in August 2012 rose 1.2 percent year-on-year (*up 0.4%, m-o-m*), staying stable.

Core consumer prices, which exclude oil and agricultural products, rose 1.3 percent year-on year and 0.2 percent month-on-month. Core consumer prices based on the OECD method, which excludes food and energy, rose 1.2 percent year-on-year and 0.2 percent month-on month. Consumer prices for basic necessities, a barometer of perceived consumer prices, were up 0.6 percent year-on-year (*up 0.7%, m-o-m*).

### Consumer price inflation

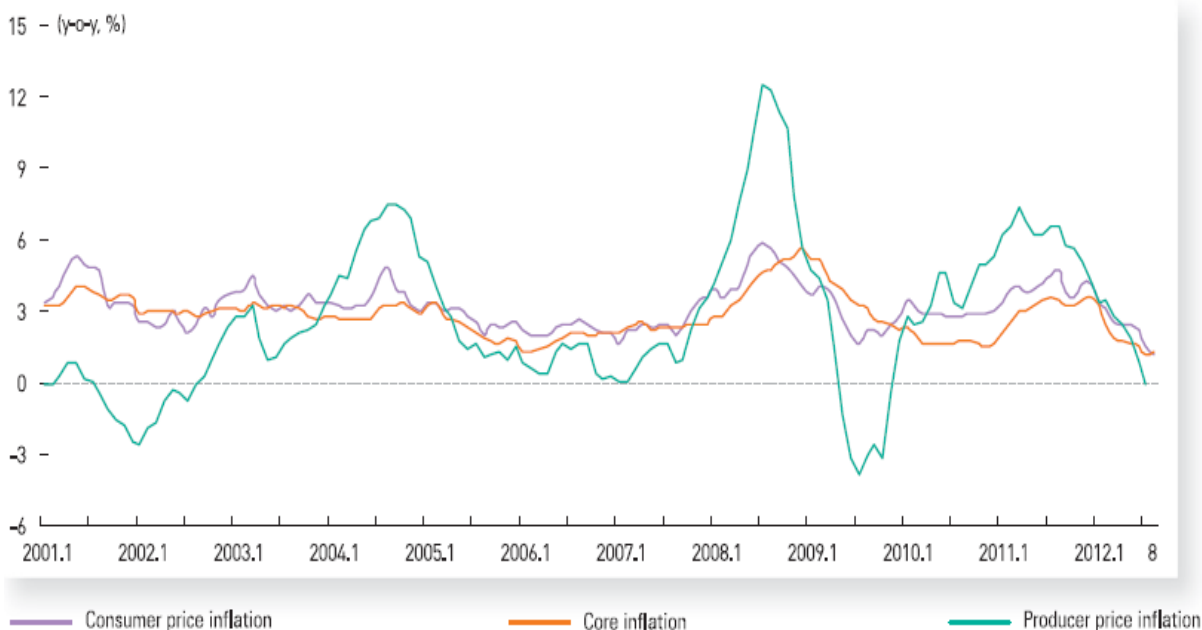
(%)

	2011					2012							
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Month-on-Month	0.7	-0.1	-0.2	0.1	0.4	0.5	0.4	-0.1	0.0	0.2	-0.1	-0.2	0.4
Year-on-Year	4.7	3.8	3.6	4.2	4.2	3.4	3.1	2.6	2.5	2.5	2.2	1.5	1.2
Consumer prices excluding oil and agricultural products (y-o-y)	3.5	3.3	3.2	3.5	3.6	3.2	2.5	1.9	1.8	1.6	1.5	1.2	1.3
Consumer prices excluding food and energy (y-o-y)	2.8	2.6	2.6	2.8	2.7	2.5	2.6	1.7	1.6	1.5	1.4	1.2	1.2
Consumer prices for basic necessities (y-o-y)	5.2	3.8	3.6	4.5	4.4	3.3	2.8	2.0	2.0	2.2	1.8	0.8	0.6

Source: Statistics Korea

### Prices

Source: Statistics Korea (consumer price trend) & The Bank of Korea (producer prices)



## 6. Private Consumption

Private consumption climbed 2.3 percent in 2011 and 1.2 percent year-on year in the second quarter of 2012.

*(Percentage change from previous period)*

	2010				2011 <sup>1</sup>					2012 <sup>1</sup>	
	Annual	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Q1	Q2
Private consumption <sup>2</sup>	4.4	0.7	1.2	0.4	2.3	0.6	0.8	0.2	-0.4	1.0	0.5
y-o-y	-	3.9	3.9	3.0	-	2.9	3.0	2.1	1.1	1.6	1.2

1. Preliminary

2. National accounts

Source: The Bank of Korea

Retail sales in 2011 climbed 4.3 percent and the second quarter of 2012 showed 0.2 percent increase, helped by an improvement in sales of durable goods including increased car sales, while sales of semi-durable goods such as gasoline dropped a bit.

For the second quarter of 2012, on a year-on-year basis, sales of durable expanded 1.3 percent, while those of semi-durable goods and non-durable goods declined 0.3 percent and 1.0 percent, respectively .

Retail sales in July 2012 rose 3.4 percent month-on-month due to an increase in the sale of durable goods, semi-durable goods and non-durable goods. On a yearly basis, sales increased 2.7 percent. Durable goods sales went up 7.1 percent month-on-month thanks to a big increase in sales of computer & communication equipment and automobiles. Semi-durable goods and nondurable goods sales turned positive, rising 2.0 percent and 1.7 percent, respectively.

*(Percentage change from previous period)*

	2010		2011				2012			
	Annual	Annual <sup>1</sup>	Q1	Q2	Q3	Q4	Q1	Q2 <sup>1</sup>	Jun <sup>1</sup>	Jul <sup>1</sup>
Consumer goods sales	6.7	4.3	1.5	0.1	1.6	-1.3	1.0	0.2	-0.5	3.4
y-o-y	-	-	5.4	5.7	4.7	1.9	2.0	1.0	0.6	2.7
- Durable goods <sup>2</sup>	14.8	10.8	4.3	-0.5	1.8	-2.4	3.0	1.3	-0.8	7.1
· Automobiles	11.1	5.9	5.9	-4.9	3.6	-11.3	2.8	8.1	-1.4	3.0
- Semi-durable goods <sup>3</sup>	6.8	4.2	0.8	0.7	1.2	-0.3	-0.3	-0.3	-1.8	2.0
- Non-durable goods <sup>4</sup>	2.2	1.1	0.2	0.0	2.1	-0.5	0.7	-1.0	-0.2	1.7

1. Preliminary

2. Durable goods: Automobiles, electronic appliances, furniture, telecommunications devices, etc.

3. Semi-durable goods: Clothing, footwear, etc.

4. Non-durable goods: Food, medicine, cosmetics, fuel, tobacco, etc.

Source: Statistics Korea

In 2011, sales at department stores, large discounters, specialized retailers and non-store retailers gained 8.1 percent, 3.9 percent, 3.3 percent and 8.6 percent respectively. Department stores, large discount stores, specialized retailers and nonstore retailers all saw their sales increase in July 2012.

*(Percentage change from previous period)*

	2010		2011				2012			
	Annual	Annual <sup>1</sup>	Q1	Q2	Q3	Q4	Q1	Q2 <sup>1</sup>	Jun <sup>1</sup>	Jul <sup>1</sup>
- Department stores	8.8	8.1	2.2	0.5	1.2	-0.6	-0.8	1.1	-5.4	6.6
- Large discounters	4.5	3.9	1.2	1.0	0.2	0.3	-1.2	-2.1	-1.8	0.2
- Specialized retailers <sup>2</sup>	5.7	3.3	1.3	-0.5	2.1	-3.1	1.5	-0.2	-0.2	4.6
- Nonstore retailers	15.6	8.6	1.4	1.2	2.8	0.6	2.7	2.4	-2.6	6.1

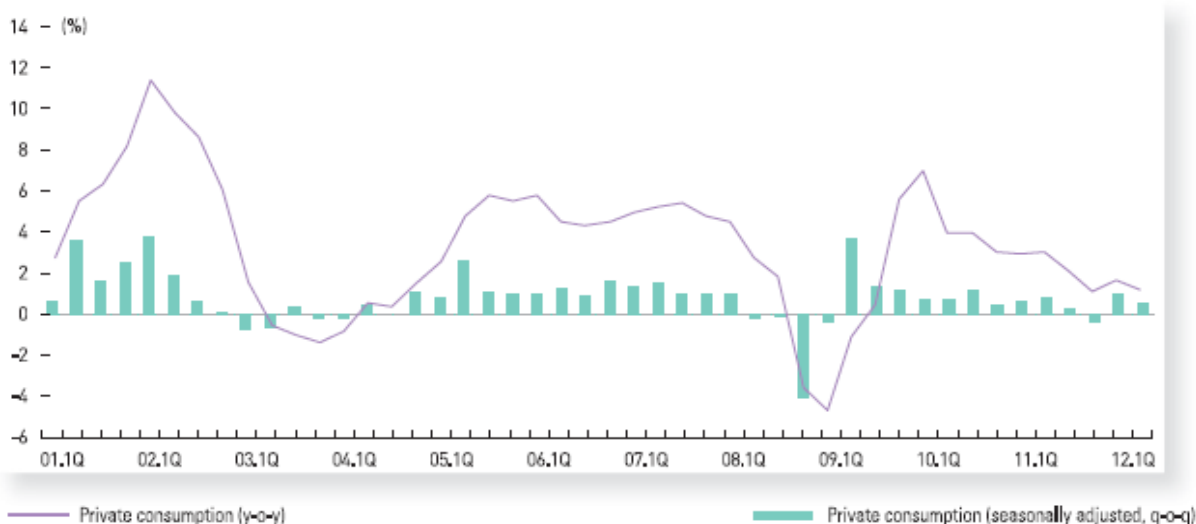
1. Preliminary

2. Specialized retailers are defined as stores carrying a few (1 to 3) specialized items.

Source: Statistics Korea

### Private consumption

Source: The Bank of Korea (national accounts)



## 7. Service Sector Activity

In 2011, overall service activity index increased 3.3 percent. For the first and second quarter of 2012, service activity increased 1.0 percent and 0.2 percent respectively.

Service activity in July 2012 rose 0.7 percent from the previous month and 1.5 percent from a year earlier as wholesale & retail, financial & insurance services and real estate & renting improved. Wholesale & retail increased 0.7 percent month-on-month, thanks to a significant increase in retail sales, driving up the whole service activity. Hotels & restaurants were down by 0.1 percent, as service activity in restaurants and bars decreased due to the economic slowdown and people taking early vacations.

(Percentage change from previous period)

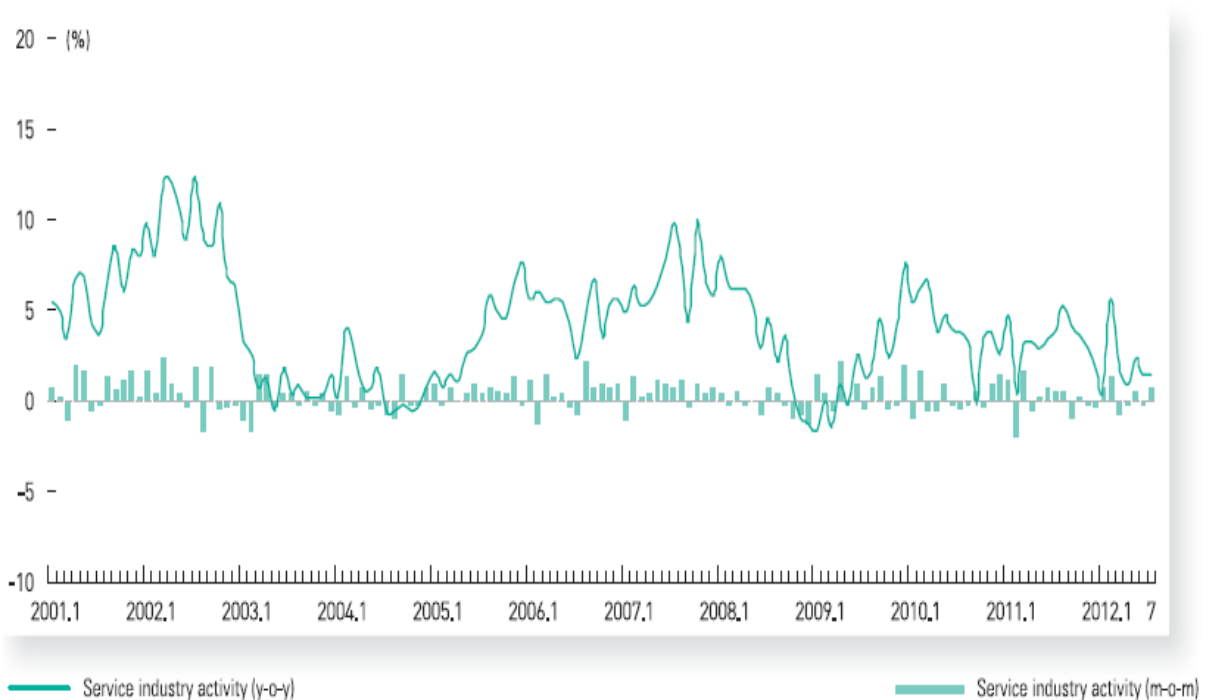
	Weight	2010		2011				2012			
		Annual	Annual	Q1	Q2	Q3	Q4	Q1	Q2 <sup>1</sup>	Jun <sup>1</sup>	Jul <sup>1</sup>
Service activity index	100.0	3.9	3.3	1.6	0.2	1.3	-0.5	1.0	0.1	-0.2	0.7
- Wholesale & retail	21.8	5.7	3.8	1.4	1.4	0.7	-0.7	0.1	0.6	-0.9	2.5
- Transportation services	9.0	11.9	3.9	2.6	-1.6	1.0	-1.0	1.5	-0.2	-0.7	-0.4
- Hotels & restaurants	7.7	1.2	-0.5	-0.4	1.0	-0.3	-1.5	-0.2	2.5	-0.5	-0.1
- Publishing & communication services	8.4	1.7	4.4	1.1	0.5	2.8	0.3	1.0	0.6	1.8	-0.5
- Financial & insurance services	15.3	4.6	7.3	3.0	0.1	2.7	0.1	1.4	-1.8	0.1	0.9
- Real estate & renting	6.3	-8.5	-10.2	3.3	-2.2	-0.3	-6.4	-0.2	3.1	-3.5	3.1
- Professional, scientific & technical services	4.8	-0.5	0.3	-1.5	2.0	1.0	1.4	1.8	-0.9	-0.3	1.9
- Business services	2.9	7.5	4.3	0.8	0.9	0.2	0.4	1.7	1.1	0.6	-0.9
- Educational services	10.8	2.0	2.4	0.2	-0.9	1.7	0.4	1.2	-1.3	-0.5	-0.6
- Healthcare & social welfare services	6.0	8.8	6.3	3.3	0.6	1.4	1.6	1.7	2.4	-1.4	1.1
- Entertainment, cultural & sports services	2.9	-0.4	2.3	1.1	0.0	0.7	0.1	4.3	-2.7	4.3	-3.7
- Membership organizations	3.8	4.3	1.1	-0.3	1.1	-0.3	-2.1	-0.2	0.4	3.9	-0.8
- Sewerage & waste management	0.4	5.1	0.0	0.1	-0.5	0.2	3.1	1.0	3.8	2.4	-2.6

1. Preliminary

Source: Statistics Korea

## Service industry

Source: Statistics Korea (service industry activity trend)



## 8. Housing Market

Nationwide apartment sales prices kept the downward trend in August, falling 0.2% from the previous month.

Apartment sales prices in the Seoul metropolitan area declined for the tenth consecutive month (*down 0.4%, m-o-m*). Apartment sales prices continued to rise in some areas excluding the Seoul metropolitan area, in particular Daegu (*up 0.4%, m-o-m*), South Chungcheong Province (*up 0.5%, m-o-m*) and North Gyeongsang Province (*up 0.5%, m-o-m*). Apartment prices in five metropolitan cities and other cities stayed flat.

### Nationwide apartment sales prices

(Percentage change from previous period)

	2009	2010	2011	2012											
	Annual	Annual	Annual	Jan-Aug	Q1	Q2	Apr	May	Jun	Jul	Aug	Aug 6 <sup>1</sup>	Aug 13 <sup>1</sup>	Aug 20 <sup>1</sup>	Aug 27 <sup>1</sup>
Nationwide	1.6	2.5	9.6	0.4	0.6	0.1	0.1	0.0	-0.1	-0.1	-0.2	-0.04	-0.03	-0.04	-0.05
Seoul	2.6	-2.2	-0.4	-2.5	-0.5	-0.1	-0.4	-0.3	-0.3	-0.5	-0.5	-0.11	-0.13	-0.14	-0.14
Gangnam <sup>2</sup>	3.9	-1.8	-0.6	-3.0	-0.7	-1.2	-0.6	-0.3	-0.4	-0.6	-0.6	-0.14	-0.18	-0.17	-0.20
Gangbuk <sup>3</sup>	0.9	-2.7	-0.2	-1.9	-0.4	-0.7	-0.3	-0.2	-0.2	-0.5	-0.3	-0.07	-0.08	-0.11	-0.08
Seoul metropolitan area	0.7	-2.9	0.4	-2.2	-0.5	-0.9	-0.4	-0.3	-0.3	-0.4	-0.4	-0.08	-0.10	-0.11	-0.12
5 metropolitan cities	2.8	8.7	20.3	2.7	1.6	1.0	0.6	0.3	0.1	0.1	0.0	-0.01	0.03	0.02	0.02

1. Weekly trends 2. Upscale area of Southern Seoul 3. Northern Seoul Source: Kookmin Bank

## II. Capital Market Performance

### 1. Stock Market

The Korean stock price index in August rose 1.2 percent to 1,905 points from the previous month's 1,882 points.

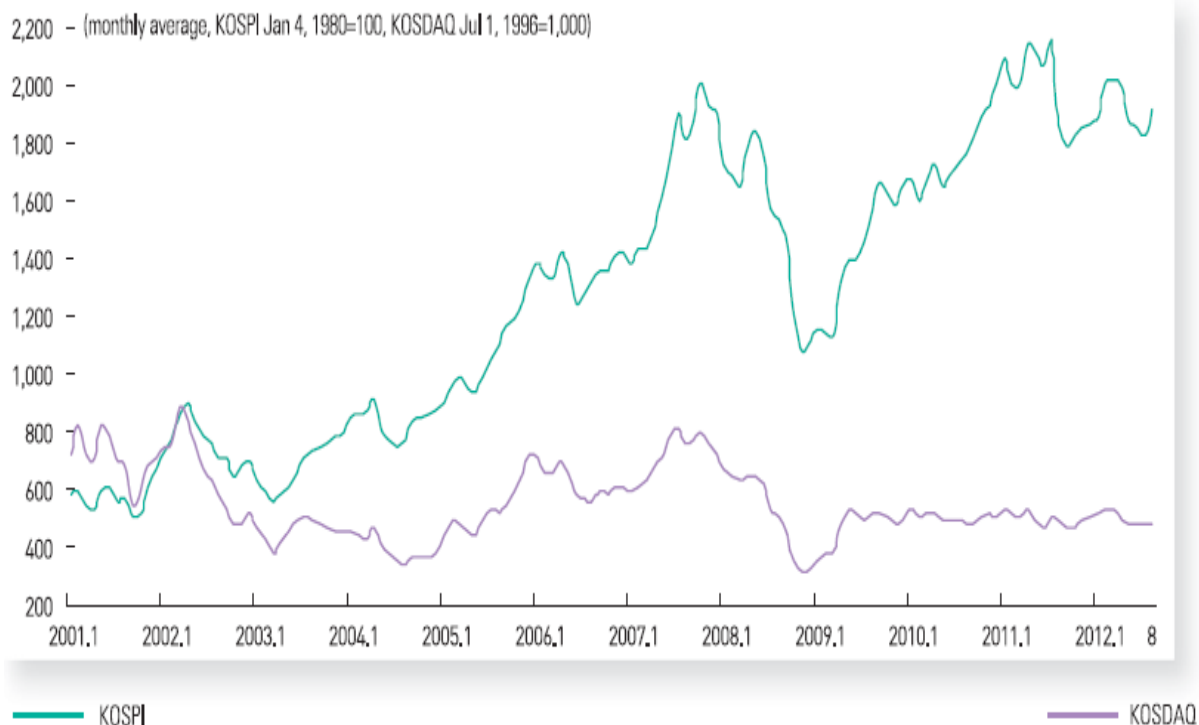
The KOSPI Composite soared due to net foreign buying in the beginning of the month spurred by lowering euro zone risks, reaching 1,957.9 points on August 16. However, the previous gains pared due to weak global markets and profit-taking later in the month.

(End-period, point, trillion won)

	KOSPI			KOSDAQ		
	Jul 2012	Aug 2012	Change <sup>1</sup>	Jul 2012	Aug 2012	Change <sup>1</sup>
Stock price index	1,882.0	1,905.1	23.1 (+1.2%)	467.6	508.4	40.8 (+8.7%)
Market capitalization	1,086.4	1,098.1	11.7 (+1.1%)	101.9	111.2	9.3 (+9.1%)
Average daily trade value	4.1	4.4	0.3 (+7.3%)	1.73	1.84	0.11 (+6.4%)
Foreign stock ownership	34.2	34.1	-0.1 (-0.3%)	7.92	8.00	0.08 (+1.0%)

1. Change from the end of the previous month  
Source: Korea Exchange

## Stock prices



## 2. Exchange Rate

The won/dollar exchange rate in August rose by 4.1 won to 1,134.7 won from 1,130.6 won at the end of July.

The won/dollar exchange rate moved up and down between 1,120 won and 1,130 won in August on expectations that the US Federal Reserve would announce another round of stimulus, and on easing concern about the eurozone crisis.

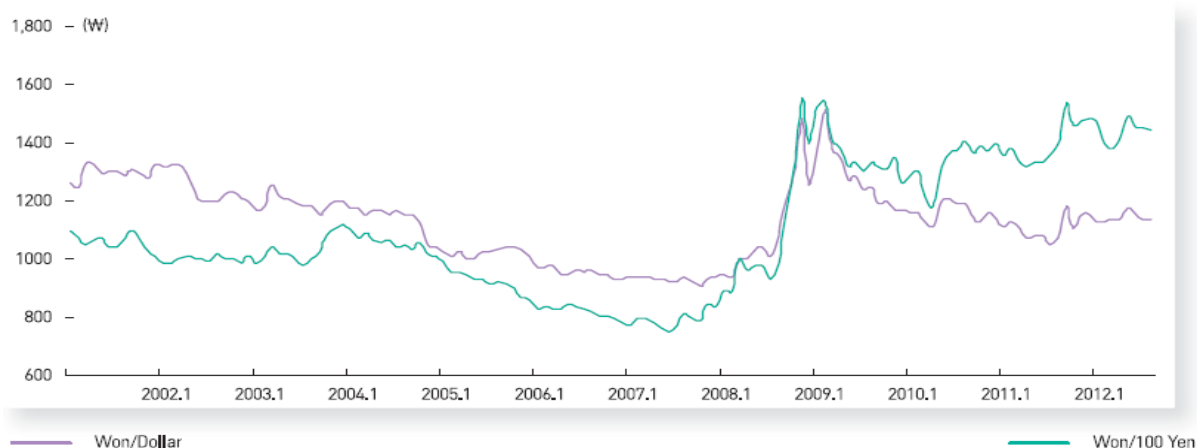
The won/100 yen exchange rate rose by 1.17 won as both the won and the yen depreciated relative to the dollar.

*(End-period)*

	2008	2009	2010	2011	2012		
	Dec	Dec	Dec	Dec	Jul	Aug	Change <sup>1</sup>
Won/Dollar	1,259.5	1,164.5	1,134.8	1,151.8	1,130.6	1,134.7	1.5
Won/100 Yen	1,396.8	1,264.5	1,393.6	1,481.2	1,445.2	1,446.4	2.4

1. Appreciation from the end of the previous year (%); the exchange rate is based on the closing price at 3:00 p.m., local time.

### Foreign exchange rate (month-end)



### 3. Bond Market

5-year Treasury bond yields dropped 11 basis points in August to 2.86 percent from the previous month's 2.97 percent as foreign investors continued to make net purchases after US government bond yields fell and Moody's upgraded Korea's sovereign debt rating on August 27.

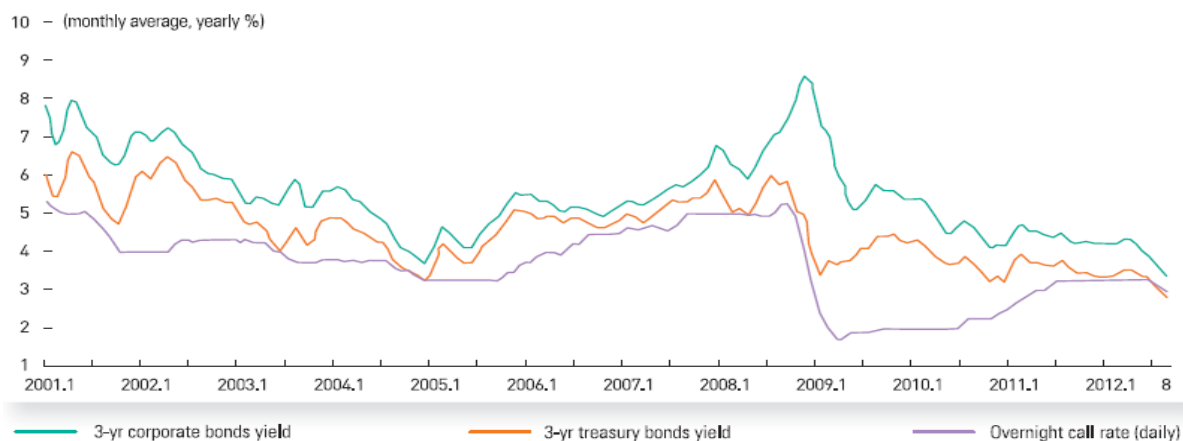
*(End-period, %)*

	2006	2007	2008	2009	2010	2011	2012		
	Dec	Dec	Dec	Dec	Dec	Dec	Jul	Aug	Change <sup>1</sup>
Call rate (1 day)	4.60	5.02	3.02	2.01	2.51	3.29	3.02	3.00	-2
CD (91 days)	4.86	5.82	3.93	2.88	2.80	3.55	3.20	3.16	-4
Treasury bonds (3 yrs)	4.92	5.74	3.41	4.44	3.38	3.34	2.85	2.76	-9
Corporate bonds (3 yrs)	5.29	6.77	7.72	5.56	4.27	4.21	3.44	3.27	-17
Treasury bonds (5 yrs)	5.00	5.78	3.77	4.98	4.08	3.46	2.97	2.86	-11

1. Basis point, changes from the previous month

### Interest rates

Source: The Bank of Korea





## 4. Derivatives Market

In 2011, the daily average trading volume of exchange-traded derivatives increased 6.0% year on year. The main reason for this was increasing volatility due to the nuclear power plant disaster in Japan, the US credit rating downgrade, and the worsening debt crisis in Europe.

The daily average trading volume of 3-year government bond futures and US dollar futures rose by 24% and 8.2% year on year, respectively. It is also good to point out that the investor base has diversified in these markets, and the proportion of foreign investors has increased, 1.4 percentage points year on year for government bond futures and 4.3 percentage points year on year for US dollar futures.

This is because there is strong demand for government bond futures and US dollar futures by foreign investors, hoping to take advantage of exchange rate fluctuations caused by external risks such as the European debt crisis.

## 5. Fund Market

As of June 2012, Korea ranks 13<sup>th</sup> in the global market, with an AUM of 240 billion US dollars, and 9,302 funds. Despite its large size, the individual funds themselves are much smaller than elsewhere due to unique factors in Korea's market.

Local institutional investors prefer to have products tailored to their specific needs, and the retail market is driven by short-term marketing themes. This means Korean asset managers are always under pressure to develop new products for retail and institutional investors. This in turns over-saturates the fund market compared to other countries.

**Top 15 Countries by AUM**

(Unit: USD bn, %, as of Jun. 2012)

Rank	Country	AUM	M/S	# of Funds
1	U.S.	12,186	49.1%	7,663
2	Luxembourg	2,343	9.4%	9,449
3	Australia	1,535	6.2%	N/A
4	France	1,394	5.6%	7,595
5	Ireland	1,136	4.5%	3,109
6	Brazil	1,024	4.1%	7,016
7	U.K.	858	3.4%	1,926
8	Canada	784	3.2%	2,799
9	Japan	731	2.9%	4,303
10	China	371	1.5%	930
11	Switzerland	294	1.1%	673
12	Germany	290	1.1%	2,089
13	Korea	240	0.9%	9,302
14	Spain	183	0.7%	2,393
15	Sweden	182	0.7%	479
<b>World Total</b>		<b>24,769</b>		<b>73,490</b>

**Average AUM per Fund**

(Unit: USD mn, as of Jun. 2012)





### **III. Regulatory Development**

*The Financial Investment Services and Capital Markets Act* (“FSCMA”) was established in 2007 as a comprehensive overhaul of capital markets regulations in order to promote autonomy and innovation in capital markets.

In June 2012, the Financial Services Commission (FSC) carried out a partial revision of the Enforcement Decrees of the FSCMA. The major revisions are shown below:

#### **1) Ease up Chinese wall regulations**

- (1) Financing for non-listed companies and block deals for listed securities are allowed.
- (2) Chinese wall regulations will be applied differently depending the phase of PF tasks.
- (3) Chinese wall regulations will be relaxed between the primary market and the secondary market with respect to bonds in which QIBs invest and certain CPs.
- (4) To facilitate the PB businesses, integrated operation of trust business, advisory and discretionary investment business, and certain dealing and brokering businesses are permitted.

#### **2) Introduce reporting requirements for significant short position**

To improve the transparency of short selling, the regulators newly introduced reporting requirements for short sellers holding a net short position that exceed a given threshold (significant short position).

#### **3) Enhance the autonomy of PEF management**

The leverage limit of PEFs through an SPC was raised from 200% to 300% to enhance the autonomy and flexibility of PEF management.

#### **4) Improve the institutional RP transaction system**

- (1) For RP transactions between institutional RP counterparties (banks, securities

companies, etc.) and investment trading companies, delivery versus payment is required.

- (2) The revised regulations allowed for dealer-type RP brokers with trust business (securities finance companies) transaction with funds under their management as an exception.