

JOINT RESPONSE UNIT ON FINANCIAL MARKETS HOLDS FIRST MEETING

FSC Vice Chairman Sohn Byungdoo presided over the first meeting of the joint response unit on financial markets on January 9, 2020 to assess the impact of the recent Middle East instability on domestic financial markets. The officials from the relevant ministries and public institutions as well as private sector experts attended the meeting.

The following is a summary of Vice Chairman Sohn's keynote address:

BACKGROUND

The escalating conflict between the US and Iran has led to increased financial market volatilities both at home and abroad. Following President Donald Trump's announcement not to seek further military action against Iran, the US stock market closed higher yesterday with Dow Jones adding 0.56% and S&P500 gaining 0.49%. However, there are lingering uncertainties and the government has been preparing contingency plans considering all possible scenarios.

On January 8, the government set up a joint response system in order to more systematically respond to situations. Today's meeting on financial markets is one of the five thematically organized units.¹

DOMESTIC FINANCIAL MARKETS

The domestic financial markets have fluctuated recently² against the backdrop of the US-China first phase trade agreement and the recent instability in the Middle East. Despite increased market volatilities following the uncertainty in the Middle East, it is necessary to remain calm and prudent.

Korea's external soundness remains solid as the net foreign assets in debt instruments (USD 479.8 billion) and the foreign exchange reserves (USD 408.8 billion) posted record highs in 2019. Given a low level of Iranian funds in domestic stock markets, the possibility of capital flight or damages to the financial soundness

¹ Five joint response units: financial markets, international oil prices, real economy, overseas construction and overseas logistics

² KOSPI: Jan. 6 (2,155.1, -0.98%) → Jan. 7 (2,175.5, +0.95%) → Jan. 8 (2,151.3, -1.11%)
USD/KRW FX rate: January 6. (1,172.1, +5.0 won) → Jan. 7 (1,166.4, -5.7 won) → Jan. 8 (1,170.8, +4.4 won)
CDS: Jan. 6 (24.00, +0.99bp) → Jan. 7 (23.35, -0.65bp) → Jan. 8 (23.37, +0.02bp)

or profitability of our financial institutions remains low. Despite widening uncertainties, foreign investors stayed net buyers for KOSPI shares for the last four consecutive trading days.

Although experts see a low chance of a full-blown war between the US and Iran, the conflict may continue and the prolonged instability in the region may hit our financial markets indirectly with rising oil prices and shrinking exports.

JOINT RESPONSE UNIT ON FINANCIAL MARKETS

The joint response unit will work to maintain financial stability by closely monitoring developments in financial markets at home and abroad, while taking appropriate actions promptly when deemed necessary.

The government will strengthen the 24-hour market monitoring system to carefully watch and analyze the effects and developments in financial markets until the level of instability in the Middle East subsides. The government will also review and improve its contingency plans in order to get every institution ready for all possible scenarios.

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