

**REAL VALUE AS THE CANARY SIGNALS DANGER**

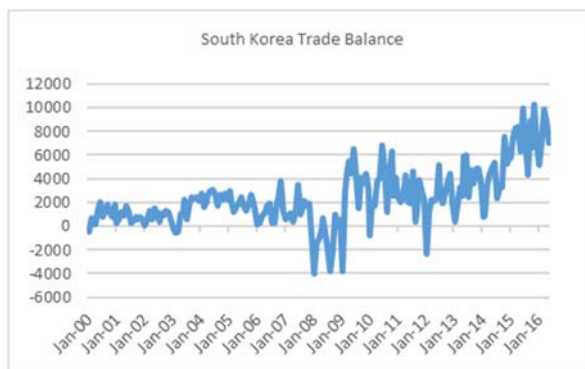


John-Paul Burke's  
Market Views

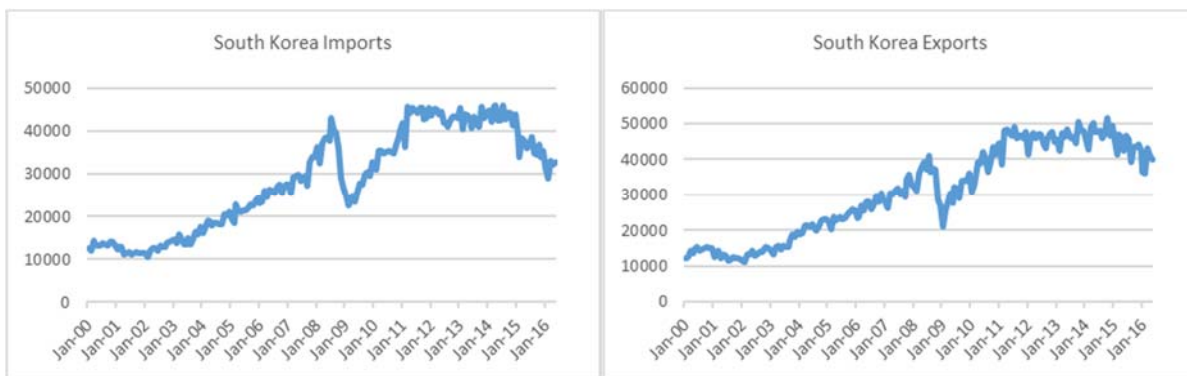
"Korean trade data is widely regarded as a "canary in the coalmine" because of the timeliness of releases and the high correlation with the export growth of other economies. In this respect Korean exports to individual countries can serve as an indicator of their growth."

The Korean Won (KRW) does not qualify as a safe haven currency in my view. The collapse in world trade and persistent, if gradual, decline in the Renminbi's value exert a downward pressure upon the currency.

South Korea runs a substantial current account balance of around 7.5% of GDP. Over 80% of the balance is made up of trade.



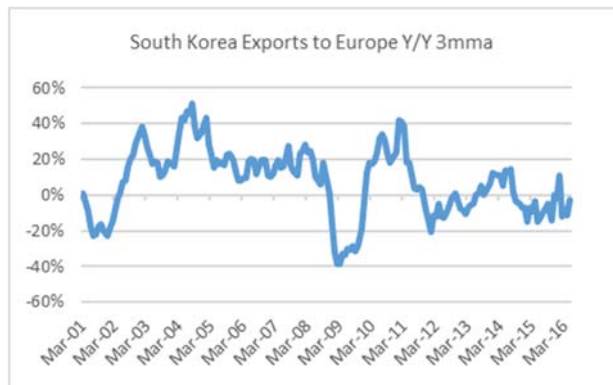
Like many currency areas, South Korea's growing trade surplus is derived from a greater fall in imports than decline in its exports.



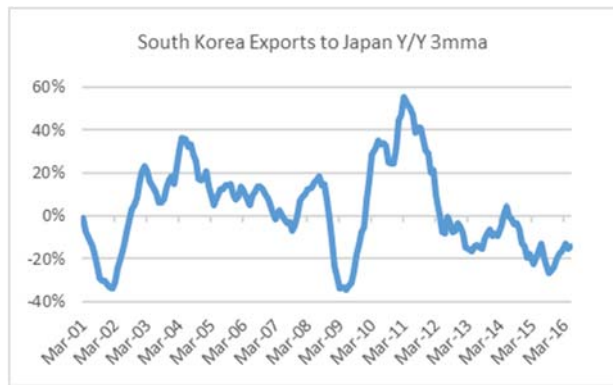
For the KRW to look more attractive, we would need to see a pick-up in its exports. However, Korea's main export destinations, the world's biggest economic blocks, look woeful.

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Negative Korean exports growth to Europe (for the most recent 3 months versus those one year ago) has signalled European weakness since late 2014.



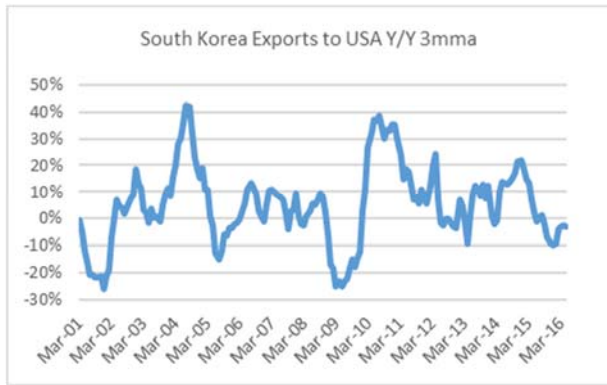
Japan since mid-2014.



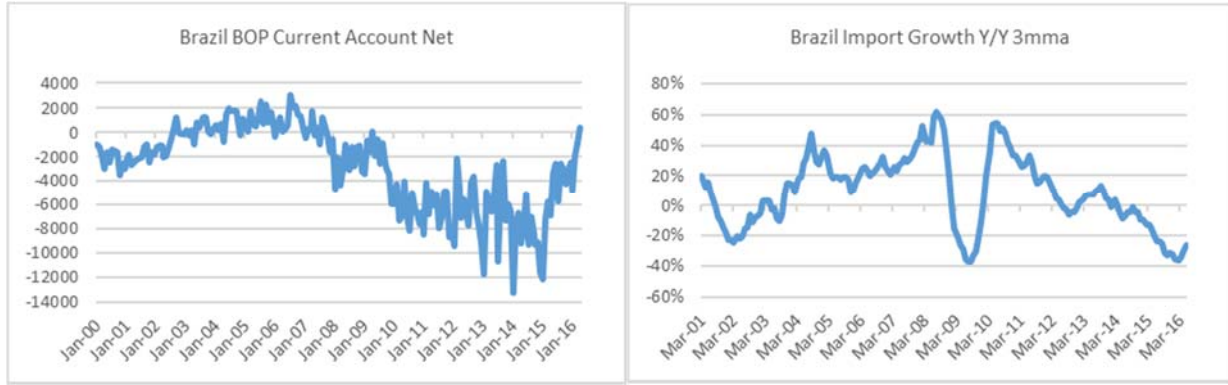
And China since the first quarter of 2015.



Concerningly, this indicator has also recently turned negative for the US as its import growth slows down.



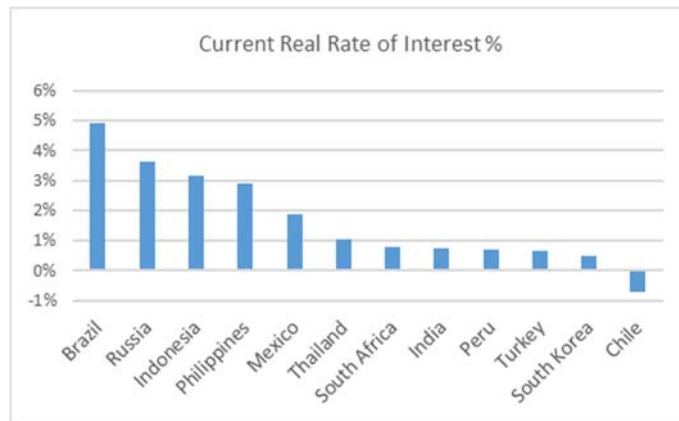
However, in Brazil the dramatic improvement in trade balance (and therefore the current account) has been brought about by a collapse in imports but also a stabilisation in its exports.



Exports are no longer falling year on year for the past 3 months because of a growing contribution from soft commodities and a falling share of industrial commodities.



When this is considered together with the high level of absolute and real interest rates in Brazil (the highest across Global Emerging Markets), it should support Brazilian Real (BRL) appreciation, especially when the message from Korean exports to the US is for weakness ahead and therefore potential dollar vulnerability.



## INFORMATION

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