

## North Korea Update

Monday, August 14, 2017

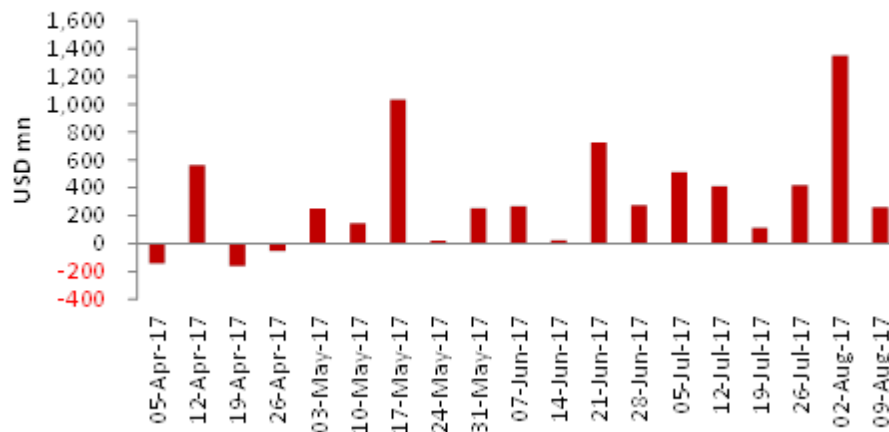
### Highlights

- **Some recovery of risk-on sentiment has been seen into Friday last week. Note that Wall Street indicators including the Dow Jones Industrial Average (DJIA), S&P500, and Nasdaq have recovered some lost ground on Friday's closing.** Safe haven demand has weakened as well, seen in the weakening of the dollar index (note DXY strengthened by as much as 1.3% in the last week, before falling by 0.6% on Friday's closing). US 2-10 government yield spread has also steepened considerably (from sub-0.8% to 0.92% on Friday's intra-day trading) while overall yields rose as risk-taking appetite improved. Elsewhere, fund flows data for the week ended 9th August continue to point a risk-taking mood, seen from Korea's equity inflows of \$260.3 million, suggesting buoyed market sentiments despite the ongoing geopolitical concerns.
- **In our view, it is unsurprising that risk appetite has improved. We note that despite the recent intensification of geopolitical concerns, there remains no signs that the US is planning a pre-emptive strike against North Korea.** In our view, three signs have to be met before a strike could ensue: (1) the US must first evacuate tens of thousands of US civilians from South Korea and Japan, (2) the US must deploy a reinforcement of troops in the Korean Peninsula and lastly (3) some pre-emptive negotiations with China, South Korea and Japan has to be made to ensure limited collateral damage on Asian shores. Moreover, US national security officials have also commented that a nuclear war with North Korea is not imminent.
- **Still, geopolitical concerns will likely still be on the table for the coming weeks especially if issues intensify further.** On this, do expect market sentiment to remain cautious, thus capping potential rallies in growth-related assets, while supporting safe haven demand. Beyond geopolitical concerns, do expect sentiments to be driven by upcoming data prints, especially EC GDP print, as well as US initial jobless claims and industrial production in the week ahead.

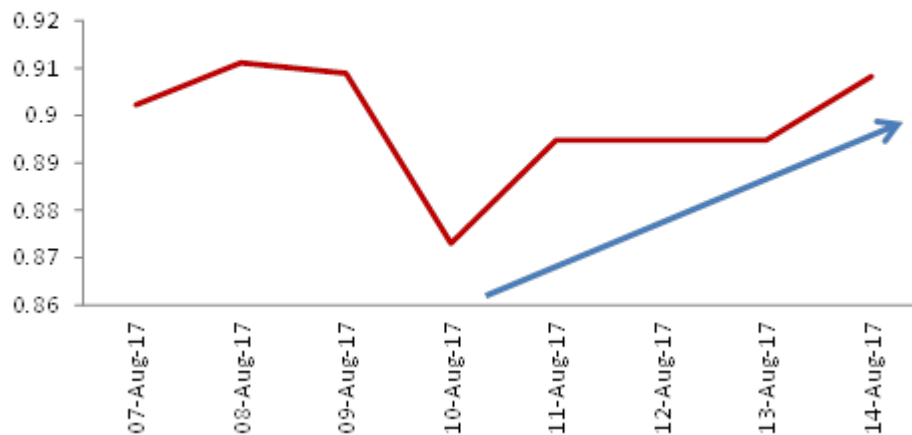
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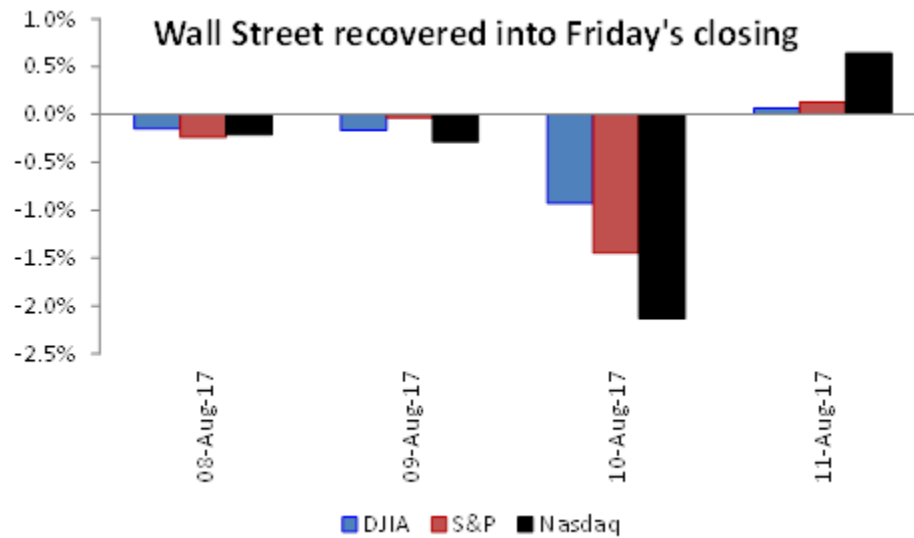
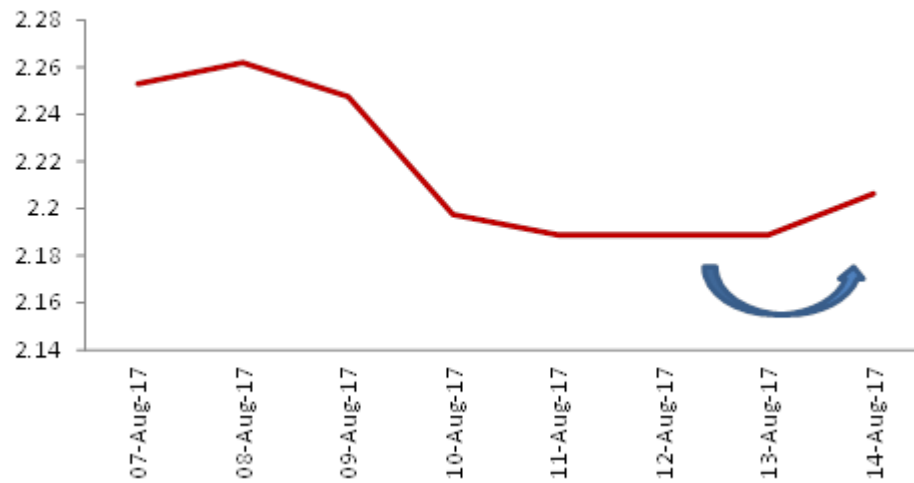
### Equity flows into S. Korea remained in net-inflow territory

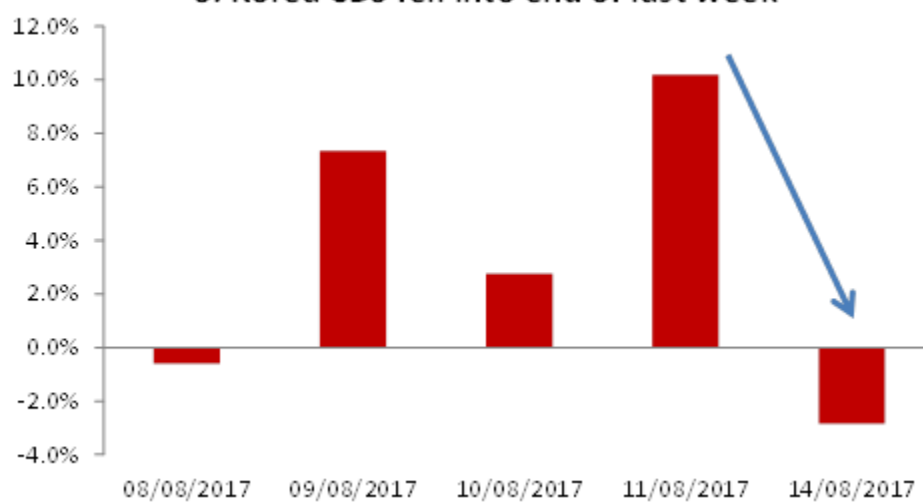
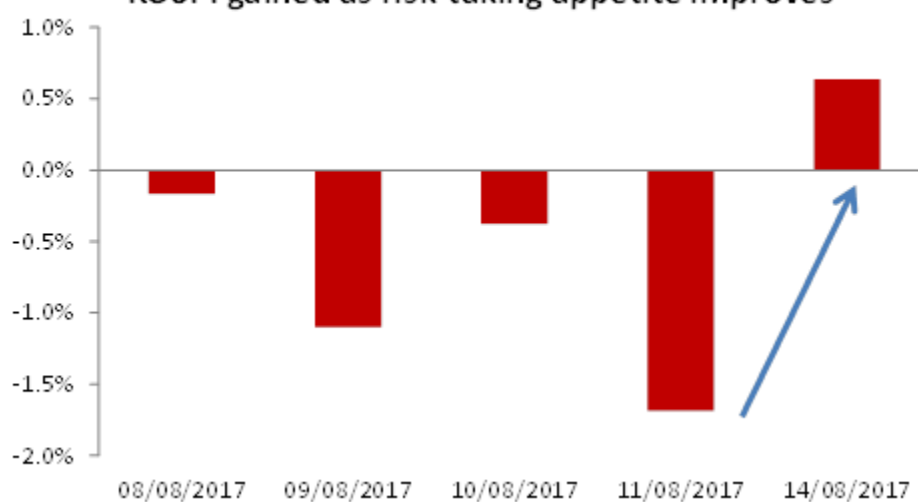


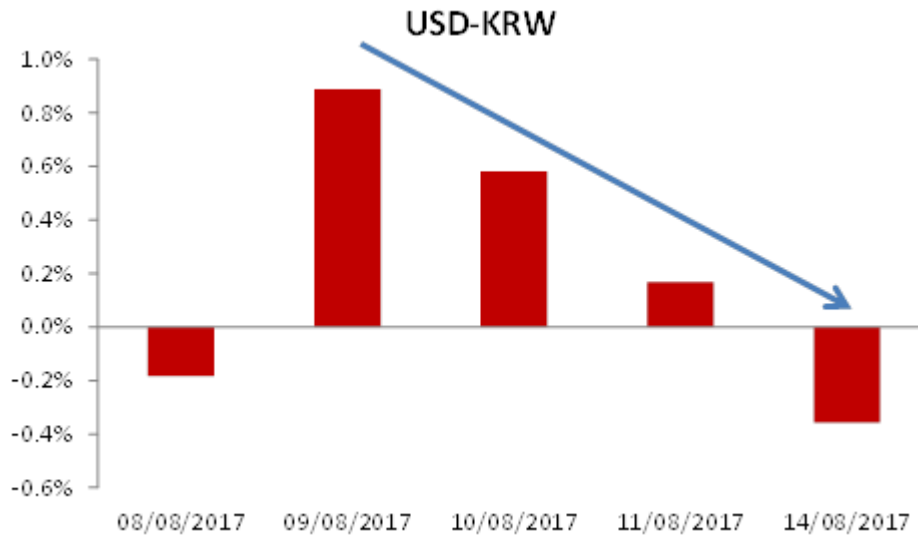
### US 2-10 yield spread steepened, suggesting a pick up of market risk appetite



## US 10Y Government Yield



**S. Korea CDS fell into end of last week****KOSPI gained as risk-taking appetite improves**



Source: Bloomberg, OCBC, EPFR

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