

FOREIGN EXCHANGE

Korean Won Rally May Run Longer As Investors Pile In

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South Korean officials declare the country's currency is overvalued, and some analysts are predicting an end to the won's sharp ascent. But a number of investors in Korea and around the world are taking the contrarian view.

Since the end of September, the won has gained 8.4% against the U.S. dollar and 13% versus the yen.

Some investors who worried then that the won had reached its limit now say they don't believe the rally is over. With the yen weakening and China maintaining its grip on the yuan, they say, the won is the only currency in Asia that serves as a proxy for the region's surging economic growth.

"When it keeps on rising, at some point you throw in the towel and get on board," says Sean Callow, senior currency strategist at Westpac Institutional Bank, a division of Westpac Banking Corp. in Australia.

Mr. Callow says foreign-exchange investors, including previously skeptical European pension funds, are showing more enthusiasm about betting on the won to strengthen further. Westpac, which is revising its target of 967 won to the dollar, expects the Korean currency to keep appreciating in the next few months. Late yesterday in Seoul, the dollar fell to 962.60 won, from 970.30 won late Friday.

Stock investors also are choosing to stay long on the won, strategists say. Last year, the Korean stock market's benchmark index rose

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more than 50%. The won's appreciation against the dollar allowed U.S.-based investors to post even bigger returns.

"When the won goes up, we go up," says Henry Seggerman of International Investment Advisers in New York, which manages several Korea-focused funds. "Even when you see a sideways move in the market, there are increases on a dollar basis."

For many investors and strategists, concerns about the won's strength have dissolved. Despite jawboning by South Korean officials that a more expensive won is hurting exports, the central bank of Korea has avoided aggressive steps such as massive selling of won for dollars to weaken the currency.

In addition, South Korea and the U.S. last week began talks on a free-trade agreement. Such a pact could give the Korean economy a boost by lifting trade barriers.

Over the weekend, Finance Ministry officials said they want to loosen restrictions on won-denominated transactions overseas to make the currency more widely traded internationally.

While the strong won could hamper some exporters, it isn't expected to cut into Korea's corporate earnings across the board. Mr. Seggerman says the market is diverse enough that investors can rotate into companies less affected by the stronger currency.

Yesterday's Market Activity

The dollar advanced following Friday's gains on optimism that the U.S. economy is strong and Federal Reserve policy makers will continue to raise interest rates.

The gains were across the board, bringing the dollar to its highest levels in five weeks versus the euro and the pound. The euro moved briefly below \$1.1950, a key technical level and roughly the center of the \$1.1640 to \$1.2325 range where it has traded since mid-September.

In late New York trading, the euro was at \$1.1960, down from \$1.2021 late Friday. The dollar was at 119.02 yen, up marginally from 118.89.

With a relatively light week ahead, some market watchers say the dollar could have trouble making significant gains, while others say that with its new legs following last week's Fed meeting and payrolls report, a near-term dollar drop doesn't seem in the cards.

--Steven Vames contributed to this report

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