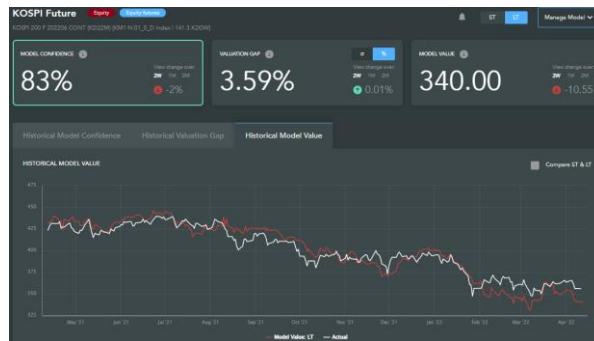




12.04.2022

Nervous about China? Watch South Korea

- Most of the models on Qi's "[Asian Equity Index Futures](#)" watchlist are cheap to macro model value. China's increasingly stringent lockdowns are adding to existing nerves around Russia / Ukraine & Fed tightening.
- There are two exceptions – the Nifty 50 future & KOSPI future. The latter is the richest Asian equity market in macro terms. At around 0.5 sigma (3.6%) rich to model, the [KOSPI](#)'s valuation gap is not huge but it does stand out when most Asian peers are close to one sigma cheap to the macro environment.
- Korea is an export biased economy & often viewed as a barometer for the global economic cycle. China accounted for 27% of Korea's total exports in 2021; for context, the US was 15%.



- The LT model is strong & stable - model confidence has been running at 80%+ since October - & the drivers reflect the importance of international trade. Stronger commodities & tracking GDP for Korea, China & the US feature prominently.
- To that end note Now-Casting's tracking GDP number for Korea has fallen from a run rate of almost 5% a month ago, to just under 3.5% today.
- The desire for a weaker US Dollar is the other main driver & all of those macro dependencies explain why Qi's model value is edging lower. Thus far, the KOSPI future has slightly lagged that downturn. For those worried about the hit to global trade from the spread of Covid in China, it offers a potentially interesting trade expression.

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Quant Insight Limited
42-46 Princes Street
London E1 5LP
United Kingdom
Tel: +44 203 9941310
www.quant-insight.com