KTB Futures Market Report

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Research at International Sales & Trading

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Recap on Futures Market

	KTB503	KTB506	USD501
Maturity	03/15/05	06/14/05	01/17/05
Close (a)	**111.52**	**-**	**1042.70**
Change	-0.59	-	6.00
Open	112.10	-	1036.70
High	112.11	-	1044.30
Low	111.46	-	1033.00
Sttl. Prx.	111.55	111.57	1042.30
Volume	71,426	0	11,886
Vol. Chg.	-41,310	0	5,761
Open Int.	72,495	0	2,516
O.I. Chg.	3,974	0	-5,545
Fair Val. (b)	111.68	111.57	1043.08
(a)-(b)	-0.16	-	-0.38
Basket Avg.	3.815%	3.821%	n/a

Detailed Recap on Cash Bonds

Category	Series	Close	Change	Maturity	Coupon	O/B
3 Yr	2-10	3.48	▲ 0.07	10/02/05	5.30%	2,010,000
	3-1	3.43	▲ 0.07	01/08/06	5.10%	1,870,000
	3-2	3.48	▲ 0.14	03/05/06	4.50%	5,220,000
	3-5	3.59	▲ 0.15	09/03/06	4.50%	9,540,000
	4-1	3.71	▲ 0.14	03/03/07	4.75%	6,660,000
	4-5	3.72	▲ 0.14	09/10/07	3.75%	9,630,000
5 Yr	2-11	3.77	▲ 0.07	10/09/07	5.77%	1,300,000
	3-3	3.82	▲ 0.14	03/12/08	4.75%	5,010,000
	3-6	3.91	▲ 0.16	09/09/08	4.50%	12,080,000
	4-2	4.03	▲ 0.16	03/10/09	5.00%	4,850,000
	4-4	4.01	▲ 0.15	06/10/09	4.50%	11,010,000
	4-7	4.03	▲ 0.15	12/10/09	3.50%	4,280,000
10 Yr	4-3	4.52	▲ 0.14	03/17/14	5.25%	6,300,000
	4-6	4.52	▲ 0.14	09/10/14	4.25%	6,550,000

* Date(mm/dd/yy), Amount(KRW Mln)
* Basket: KTB503 (4-1, 4-4, 4-5), KTB506 (4-1, 4-5, 4-7)

Korea Cash Bond Closing Yields

	Treasury (10-year)	Treasury (5-year)	Treasury (3-year)	3-yr Corp. Bonds (BBB-)	3-yr Corp. Bonds (AA-)	MSB (2-year)	MSB (1-year)	CD (91-day)	CP (91-day)	Call (overnight)
Yield	4.52	4.03	3.72	8.61	4.19	3.67	3.47	3.45	3.57	3.25
Change	0.14	0.15	0.14	0.14	0.14	0.15	0.08	0.00	0.00	-0.01

US Cash Bond Closing Yields

	Treasury (10-year)	Treasury (5-year)	Treasury (3-year)	10-yr Corp. Bonds (AA)	10-yr Corp. Bonds (AAA)	Treasury (2-year)	Treasury (6-month)	Treasury (3-month)	Treasury (30-year)	FFR (overnight)
Yield	4.21	3.70	3.36	4.74	4.73	3.21	2.55	2.22	4.72	2.25
Change	0.05	0.06	0.06	0.00	0.00	0.06	0.03	0.01	0.04	0.00

Equity & Forex

	KOSPI	KOSPI200	KOSDAQ	KOSDAQ50	DOW	NASDAQ	S&P500	TAIWAN	NIKKEI225	KRW/USD
Close	905.10	117.82	428.4	58.43	10558	2,087.91	1,184.52	5889.52	11438.39	1043.00
Change	19.56	2.81	5.34	0.18	52.17	17.35	7.07	35.58	80.17	6.30
% Chg.	2.21%	2.44%	1.26%	0.31%	0.50%	0.84%	0.60%	0.61%	0.71%	0.61%

IRS & Spread with Treasury

	1-year	3-year	5-year	10-year
IRS	3.43	3.61	3.86	4.47
Change	0.17	0.16	0.13	0.10
Spread	-0.04	-0.11	-0.17	-0.05

On-shore CCIRS & Off-shore NDS

	1-year	3-year	5-year	10-year
CCIRS	3.11	3.27	3.55	4.18
Change	0.15	0.18	0.13	0.13
NDS	3.13	3.28	3.55	4.20

3-year Treasury Bond Futures (KTB) Trading Volume

Market Portion	Futures	Securities	Banks	Inv.Trust	Insurance	Others	Individual	Foreign	Total
	17%	17%	36%	10%	2%	1%	7%	10%	100%
Buy	12,268	11,452	26,858	6,775	1,275	566	5,118	7,114	71,426
Sell	12,323	13,276	24,540	7,255	822	436	5,012	7,762	71,426
Net	**-55**	**-1,824**	**2,318**	**-480**	**453**	**130**	**106**	**-648**	**0**

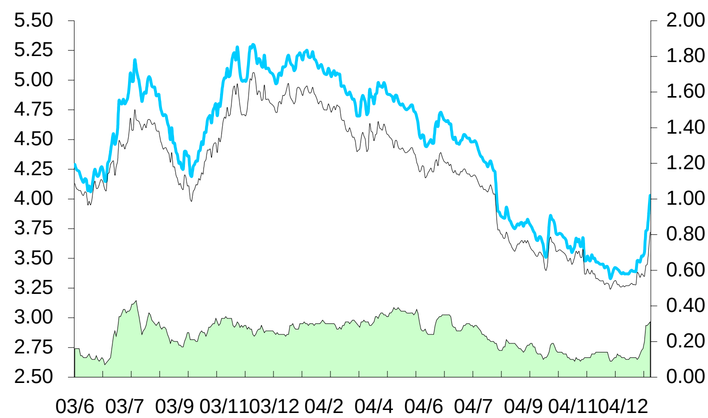
KRW/USD Currency Futures (USD) Trading Volume

Market Portion	Futures	Securities	Banks	Inv.Trust	Insurance	Others	Individual	Foreign	Total
	23%	3%	37%	11%	0%	9%	10%	7%	100%
Buy	4,312	582	5,833	2,808	0	1,539	2,078	1,527	18,679
Sell	4,283	662	7,907	1,362	0	1,677	1,791	997	18,679
Net	**29**	**-80**	**-2,074**	**1,446**	**0**	**-138**	**287**	**530**	**0**

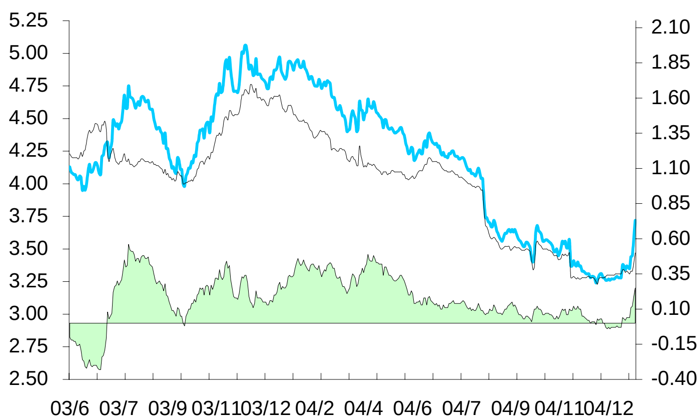
Intraday 3Min KTB503 Chart (5, 20)

KTB Futures Leading Contracts

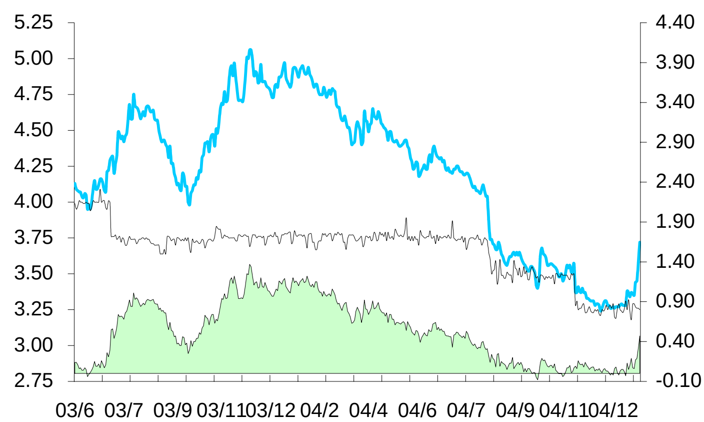
5Yr & 3Yr Cash Yields



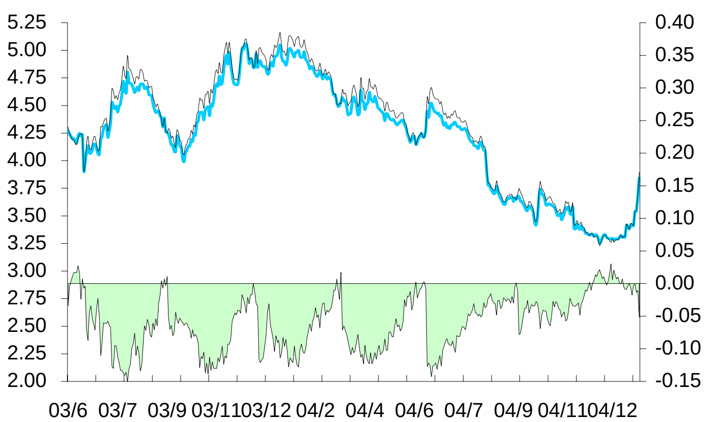
3Yr Treasury & 1Yr MSB Cash Yields



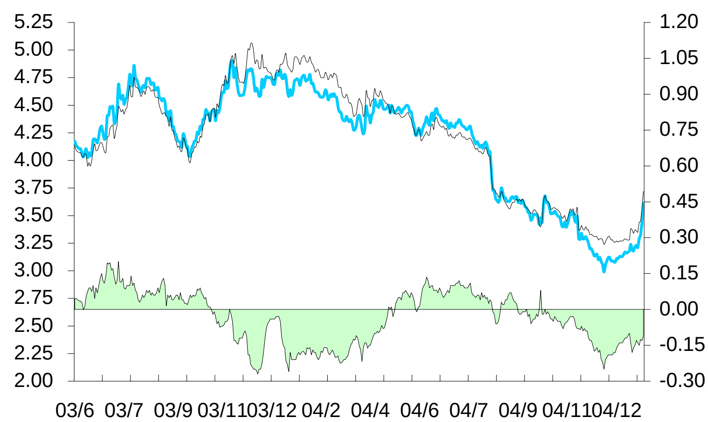
3Yr Cash & Overnight Call



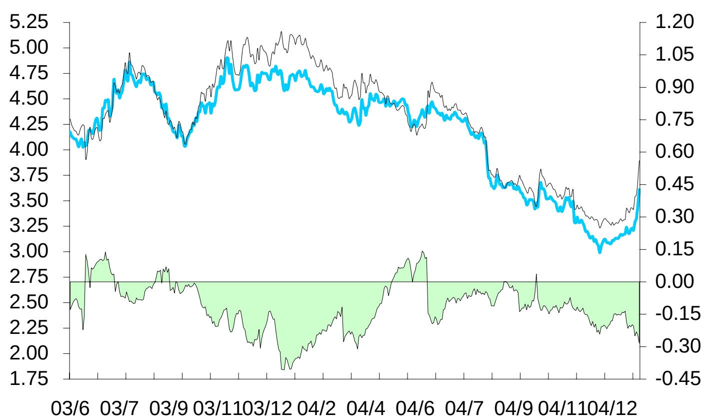
Basket Forward & Futures Implied Yields (Underval.)



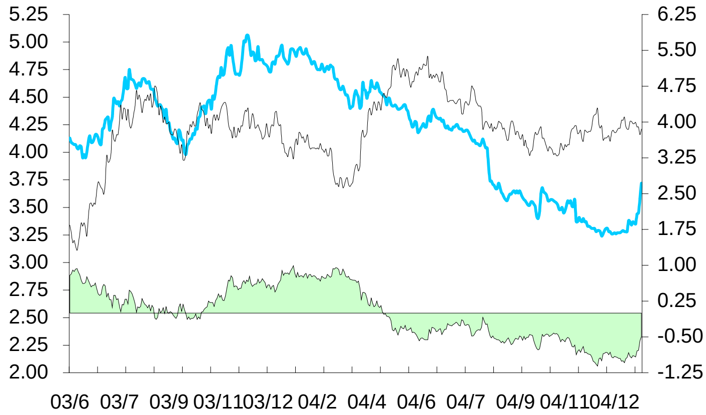
3Yr IRS & Cash Yield



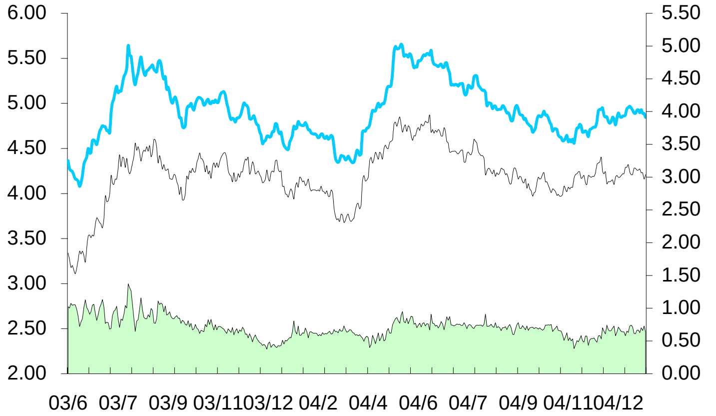
3Yr IRS & Futures Implied Yield



Korea 3Yr & US 10Yr Yields



Korea 10Yr FESB($) & US 10Yr Yields



Technical

Moving Averages

	5D	10D	20D	60D
KTB503	112.35	112.66	113.00	
Cash Yield	3.51	3.44	3.36	3.37

KTB503 Pivot

Support Levels		Pivot Point	Resistance Levels	
2nd	1st		1st	2nd
111.05	111.28	111.70	111.93	112.35

Durations & Basic Hedging (Using KRW Duration)

	KTB503			KTB506		
Basket	4-1	4-4	4-5	4-1	4-5	4-7
Cash Duration	1.981	3.950	2.469	1.981	2.469	4.436
Basket Duration	2.800			2.962		
Futures Duration	2.757			3.002		
# of Futures Contracts for Hedging Basket (KRW 10Bln)	93			89		
# of Futures Contracts for Hedging 4-4 (KRW 10Bln)	132					
# of Futures Contracts for Hedging 4-5 (KRW 10Bln)	81			75		
# of Futures Contracts for Hedging 4-1 (KRW 10Bln)	67			61		

Economic Releases & Events

		Month	Actual	Actual(YoY)	Forecast	Prior	Prior(YoY)	Bid-Cover
01/14/05	Core PPI	Dec	0.1%		0.2%	0.2%		
01/14/05	IP	Dec	0.8%		0.5%	0.2%		
01/14/05	Capacity Utilization	Dec	79.2%		78.9%	78.7%		
01/17/05	KTB Auction: 10Yr (4-6) 1.68 tln							
01/18/05	Stage of Processing Px Index (KR)	Dec					8.5%	
01/18/05	NY Empire State Index	Jan			26.5	29.93		
01/19/05	KTB Outright Purchase (BOK)		1 tln (off-the-run 5s and 10s, Purpose: Resource for RP Operation)					
01/19/05	Building Permits	Dec			1985K	2028K		
01/19/05	Core CPI	Dec			0.2%	0.2%		
01/19/05	Housing Starts	Dec			1900K	1771K		
01/20/05	Initial Claims					367K		
01/20/05	Leading Indicators	Dec			0.2%	0.2%		
01/20/05	Philadelphia Fed	Jan			26.5	25.4		
01/21/05	Michigan Sentiment-Prel.	Jan			98.0	97.1		

Market Commentary & News

June 10, 2009

Trade Recommendation:
- **Intraday: Sell on Rally**
- **Week: Buy Dip**
- **3-month: Buy**
- **6-month: Buy**

Please see next page for Weekly Market Commentary

Low Interest Rate Worries Exaggerated
- MoFE Official
S. Korea May Mull Extra Budget After May
- Finance Minister
Gov't Rules out Clearing Principal for Credit Delinquents
- Senior Presidential Aide
Sales of Discount Outlets Up, Department Stores Down in 2004
- Min. of Commerce

Only the bird droppings...but too heavy and too dirty

The KTB market is having a really hard time now. The first two weeks of the New Year were a horrible nightmare to most investors, particularly those who had been passing through the year with heavy exposure to the long tenor for the speculative purpose. The MoFE first hit the market with surprisingly too much KTB supply for January. And then, about a week later the BOK governor took the baton and totally knocked down the market sentiment, which was just on the verge of recovering from the supply shock as the MoFE revoked the original supply plan and adjusted the 10-year proportion of the January issues.

The KTB futures price nose-dived 141 ticks to 111.52 for the week and the cash bonds also frenziedly pulled back with 3s benchmark yield up by 36 bps to 3.72%, 5s up by 51 bps to 4.03%, and 10s up by 39 bps to 4.52%. The spreads roughly have doubled to 31 bps for 5s3s and more than quadrupled to 25 bps for 3s1s. The 10s5s, however, has narrowed by 12 bps to 49 bps due to the reverse in the supply proportion between the 10s and 5s for January. The futures undervaluation widened to 16 ticks as hedgers got extremely jittery on the awful market movement to the downside.

Since the Christmas time and particularly for the last two weeks, the benchmark yield moved up almost 50 bps. The last time we saw this lofty level was right after the BOK did the first rate cut, obviously before the second cut. The yield on the 10-year tenor, 4.52% as of last Friday, was last seen even before the first cut. A series of big rackets the policymakers have made for the last two weeks continuously and violently bruised the bond market to the extent that the bond bulls were put to a complete debacle. No one seems to be really buying into the market with much confidence now.

The fundamental landscape of Korea's bond market has not changed at all, I believe. And I don't think even the backdrop of the monetary policy hasn't really changed despite the surprising MPC event last week. But the ex post change we saw in the interest rate marketplace was a stern reality that again changed investors' standpoint and expectations such that a vicious cycle of loss-cut trading continued. The serious lack of consistency in policymakers' actions and words we have seen so far is nothing new and will be always with us as long as we play here in Korea. Look at how the politicians and lawmakers in Korea act and talk. It is pretty much natural that those policymakers who are under their supervision tend to be inconsistent and often very coarse in policy implementation.

Just live with it? Correct! But the thing is how to do. Well, I believe there is only one way to fight against this random inconsistency and win the game in the end. Stay alive and be deadly consistent with your own bet. As I have argued persistently, the coin you are betting on is biased in terms of both fundamentals and policies. There is nothing to talk about the monetary policy. But some look to be worrying about the fiscal stimuli the MoFE is going to provide and the possibility of recovery in private consumption during the latter half of the year. The fiscal spending, however, is very likely to come back to the bond market without much multiplying effect, and most importantly the probability of notable rebound in private consumption enough to induce the increasing demand for loanable funds this year is virtually nil in my view.

If you really want to shoot down the bird, you should not be afraid of their droppings, although the droppings were so heavy and dirty this time that you might have got scared and lost your appetite. After the market closed last Friday, the BOK announced that they would take back some of their droppings by purchasing 1 tln of off-the-run KTBs on Wednesday this week. Although it was said to be routine activity already planned for this year to secure some KTBs for their repo operations, the real intent appears to stabilize the bond market if I consider the timing of this announcement. It is expected to provide some relief, although minor.

For the week, the KTB market is likely to begin the trade restoring some of the losses made last week on the back of the BOK's soothing gesture. But the market sentiment might not recuperate in full that soon since the damage was simply too big this time. It will take some time before the bond bulls straighten up the battlefront and resume the business. Nonetheless, the yield levels before us right now are likely to turn out to be around the year's high in my view. So if you have somehow managed to stave off the recent turmoil and remain relatively in a good shape, it should not be a bad idea to try some split buys. As I mentioned the other day, the benchmark-call spread at 20~25 bps looks to be a reasonable target for the next 3 weeks or so.

Weekly Benchmark Range: 3.60% ~ 3.80%
Today's Range: 111.30 ~ 111.70