KOREAN WON

The won's rise came before the rate hold, not after it

Nearly all of the won's gain since its July low came before the Bank of Korea held rates on 22 October, and in January–August the current account brought in 2.8 times as many dollars as foreigners took out of Korean stocks.

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KEY NUMBERS

97% [1]

of the won's rise since its 2 Jul low had come by 16 Oct, before the meeting week

−60bp [2,3]

change in the gap between Korea's 3-year and the US 2-year government bond rates, 2 Jul–21 Oct, all of the net change after late August (negative = against Korea)

2.8× [4,5]

the dollars the current account brought in, against those foreigners took out of Korean stocks, January–August 2026

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Data
The data behind each chart can be downloaded as CSV from the online version.

KEY FINDINGS

01 The won did not speed up after the hold: on decision day it moved 0.08% against the dollar, less than on 20 of the 22 trading days before, and 97% of its rise since the July low had come by 16 Oct[1].

02 On balance the gap between Korean and US market interest rates moved against Korea only from late August, 60bp in all from 2 Jul to 21 Oct[2,3]. Korea's two hikes had narrowed the policy-rate gap and the Fed's rise widened it again, so the hold left Korea's base rate 100bp below the top of the Fed's range[6,7].

03 Studies of other currencies find that decisions move exchange rates through their surprise, and on Fed and ECB decision days mostly through news about the future path of rates; in 1996 a model whose power came almost wholly from net buying and selling explained more than half of daily moves in the mark-dollar rate[8,9,10]. Korea's 3-year government bond yield had fallen 30bp from its late-September high before the meeting and moved 1.8bp on decision day, which suggests the hold was largely expected[2,6].

04 This was the won, not a weak dollar: from 2 Jul to 16 Oct a dollar came to cost 13.3% fewer won, while the broad dollar index rose 0.6% and the Taiwan dollar, a fellow chip exporter's currency, weakened[11,12,13].

05 In January–August 2026 the current account brought in USD 279bn, 2.8 times the USD 101bn foreigners took out of Korean stocks, and in the balance of payments foreigners were small net buyers of Korean shares in July–August, though daily exchange data, which we cannot republish, show net selling in every month from July; how much export income was turned into won is not measured[4,5].

THE QUESTION

The question we answered

Why did the won keep strengthening through the Bank of Korea's October 2026 rate hold, though US rates rose further above Korea's and foreigners sold Korean stocks heavily this year, and what part did export dollars and other flows play?

What we looked at

How the won moved around the Bank of Korea's October rate hold and this year's two hikes, whether interest rates or the dollars flowing into and out of Korea explain the move, and what research finds about currencies on central-bank decision days.

A note on the question. At the daily close the won did not rise faster after the decision than before it—nearly all of its gain since July came earlier—and over that rise the gap with US market interest rates moved against the won, not for it, on balance only from late August.

1 Almost all of the won's rise came before the meeting week

Almost all of the won's gain since its July low came before the meeting week. We measure the won as won per dollar, so a lower number means a stronger won. At the Bank of Korea's afternoon close a dollar cost 1,555.8 won on 2 Jul 2026, the won's weakest of 2026, and 1,324.6 won on 23 Oct, a fall of 14.9%[1]. On decision day the won closed at its strongest since 2 Oct 2024.

Meanwhile the Bank raised its base rate from 2.50% to 3.00%, on 16 Jul 2026 and 27 Aug 2026[6]. By Friday 16 Oct, the last trading day before the meeting week, 97% of the won's rise had already happened[1]. That Friday alone a dollar got 13.2 won cheaper. The chart below shows the year: the won weakened into early July, then rose, most of it by mid-October, with a setback in mid-September.

2 The hold moved the won less than an ordinary day

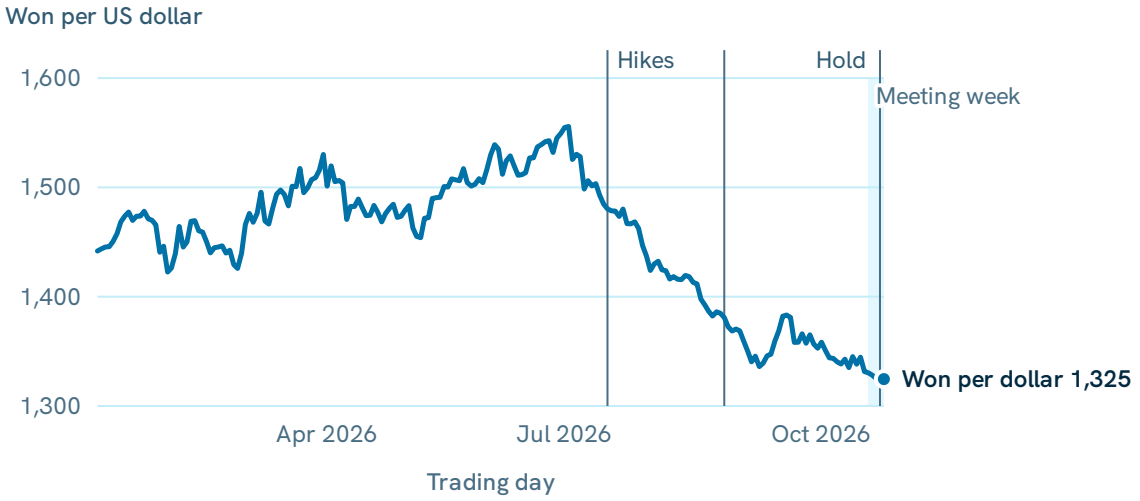
In the meeting week the won kept the pace it had already set, and on decision day it moved less than on almost any day of the month before. Over the four days to Thursday 22 Oct it gained 7.2 won, about 1.8 won a day[1]. Over the 22 trading days before, it had gained 1.7 won a day on average[1]. On Friday it slipped back 0.4 won.

In percent, which keeps days at different levels comparable, the decision-day move was 0.08%, smaller than on 20 of those 22 trading days[1]. It was also smaller than on the two days the Bank raised rates, 0.29% and 0.28%. The chart below compares them with the average day.

FIGURE 1

A dollar cost 1,555.8 won at the won's 2 Jul low and 1,324.6 won on 23 Oct; 97% of that fall had come by 16 Oct, before the meeting week

Won per US dollar in 2026 · Won per dollar, Bank of Korea 15:30 close, daily, 2 Jan–23 Oct 2026



How to read this chart. Lower means a stronger won: fewer won buy one dollar. Vertical lines mark the Bank of Korea's two rate rises, to 2.75% on 16 Jul and to 3.00% on 27 Aug, and its hold at 3.00% on 22 Oct; the shaded strip is the meeting week, 19–23 Oct.

By the 16 Oct close of 1,331.4 won, the last before the meeting week, 97% of the 231.2-won fall from 2 Jul to 23 Oct had happened.

The Bank of Korea's 15:30 close. Since July 2026, with round-the-clock onshore trading, ECOS also publishes closes on some Korean holidays; every published close is shown. The rate dates are the days the base-rate series shows each change.

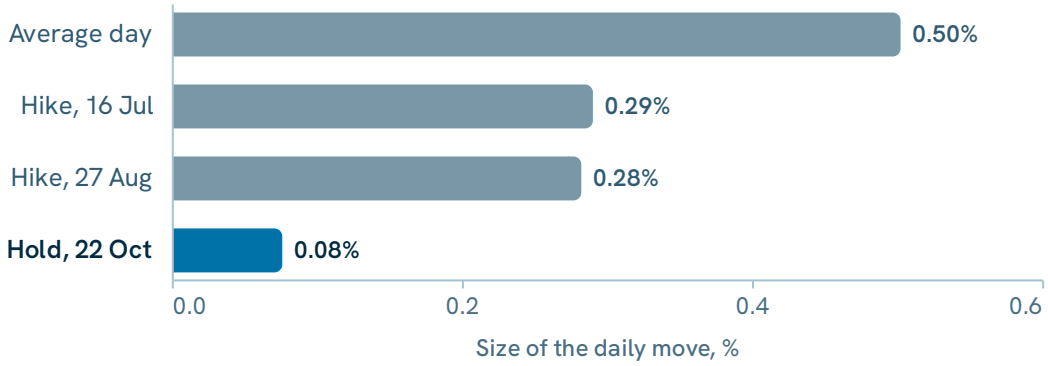
Left out: the extended-session close, which tells the same story (in the text), and New York noon rates (in the peer-currency chart below).

Source: Source: Bank of Korea, ECOS · Data to 23 Oct 2026 [1,6]

FIGURE 2

On the day of the hold the won moved 0.08%, less than on either hike day and less than on 20 of the 22 trading days in the month before

How far the won moved against the dollar on decision days, and on an average day · Change in won per dollar from the previous 15:30 close, %, whichever the direction, 2026



How to read this chart. Each bar is how far the won moved against the dollar in one day, whichever the direction; on all three decision days it strengthened. The average day is the mean size of the 22 daily moves from the 16 Sep close to the 16 Oct close, gains and losses alike.

In won, a dollar got 1.0 won cheaper on decision day, against 4.3 won on 16 Jul and 3.9 won on 27 Aug; percent keeps days at different levels comparable. The month's biggest day was 22 Sep, when a dollar got 22.8 won cheaper.

On 23 Oct, the day after the hold, the won slipped 0.4 won. In the table, a negative change means fewer won per dollar, a stronger won; the close is won per dollar.

Source: Source: Bank of Korea, ECOS; datasteg calculation · Data to 23 Oct 2026 [1,6]

In June Governor Shin Hyun Song said that round-the-clock trading in the onshore currency market would open in July [14]. The won's extended-session close tells the same story: on decision day it ended 0.3 won weaker than the day before, at 1,326.5 won [15].

3 The market-rate gap moved against the won late in its rise

Over the won's rise as a whole the gap that markets trade moved 60bp against Korea, all of the net change after 26 Aug, by when 74% of the rise had already happened[1,2,3]. Two gaps matter here, both measured in basis points. The policy-rate gap is Korea's base rate minus the top of the Federal Reserve's target range. The market-rate gap, Korea's 3-year government bond yield minus the US 2-year Treasury yield, moves with where investors think policy rates are heading.

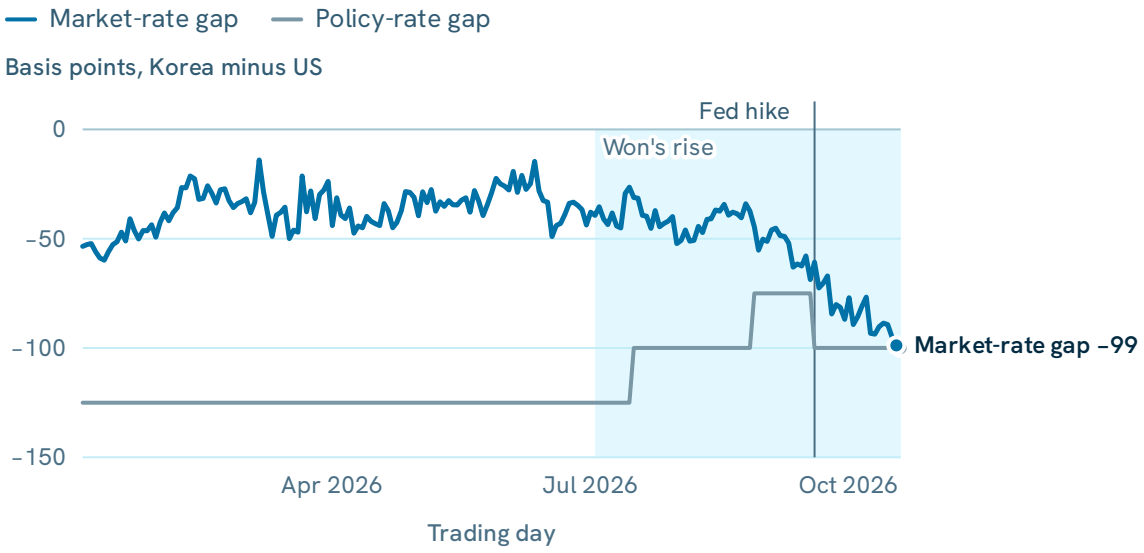
The policy gap moved both ways: Korea's two hikes narrowed it from 125bp to 75bp below the Fed's[6,7], and the won rose before, between and after them. The Fed's rise, in effect from 17 Sep 2026, widened it to 100bp, where the hold left it[6,7]. On 17 Sep 2026 the won fell 0.99%, its largest one-day fall since the July low[1]. It came within a setback that had begun on 9 Sep, before the Fed moved: a dollar cost 1,336.1 won on 9 Sep and 1,383.3 won on 18 Sep[1].

The market gap moved against Korea, from −39bp at the won's July low to −99bp on 21 Oct, its widest since 30 Sep 2025[2,3]. Until late August it swung, between −26.4bp on 15 Jul and −52.2bp on 31 Jul, and on 26 Aug it stood at −37.4bp, close to where it started. US 2-year yields rose 67bp, while Korea's 3-year yield rose only 8bp[2,3]. The chart below shows both gaps through the year.

FIGURE 3

The gap between Korean and US market rates moved 60bp against Korea from 2 Jul to 21 Oct, on balance all of it after late August; the hold left the policy-rate gap at -100bp

Korea–US interest-rate gaps in 2026 · Basis points, Korean rate minus US rate, daily, 2 Jan–22 Oct 2026



How to read this chart. Below zero, Korean rates are lower than US rates; a falling line means the gap is moving against Korea. The policy-rate gap stepped up when Korea raised its rate on 16 Jul and 27 Aug and down when the Fed raised on 17 Sep. The shading is the won's rise, from its 2 Jul low.

Market-rate gap: Korea's 3-year government bond yield minus the US 2-year Treasury yield, on days with both a Seoul and a New York close, to 21 Oct (latest US data). From 2 Jul to 21 Oct US 2-year yields rose 67bp and Korea's 3-year yield 8bp.

Policy-rate gap: the Bank of Korea's base rate minus the top of the Fed's target range, to 22 Oct. It narrowed on balance from -125bp to -100bp over the won's rise; on balance only the market-rate gap moved against Korea.

Left out: the 10-year gap, which tells the same story (-31bp on 2 Jul, -97bp on 21 Oct); the won itself is in a different unit and is marked here by the shading, never a second axis.

Source: Source: Bank of Korea, ECOS; Federal Reserve via FRED; datasteg calculation · Data to 22 Oct 2026[2,3,6,7]

Day to day, the won ignored the market gap. Over 70 days the correlation between their daily moves was 0.05, close to none, and the won moved the way the gap suggested on 47% of days[1,2,3]. These are descriptions, not a test of cause.

Research suggests why a hold need not move a currency. Under uncovered interest parity a currency reflects the whole expected path of rate gaps[16], but in US, euro-area and UK data expected rate gaps in the near future matter much more than the theory implies[16]. By that finding, the market gap's move against Korea would have been expected to weigh on the won[2,3,16]. On Fed and ECB decision days currencies react to the surprise, mostly about the expected path of rates[9]. In a study of advanced and emerging economies, surprises in the current rate averaged close to zero[8].

Korea's 3-year yield suggests the hold was expected. It fell 30bp from its 28 Sep 2026 high to 21 Oct, the day before the meeting[2]. Its margin over the base rate shrank from 112bp to 82bp over the same weeks, and on decision day it moved 1.8bp[2,6].

Rates still matter: in the same study a surprise rise in the policy rate strengthened the currency[8], though less so in advanced economies since 2021[8]. In a study of emerging economies from 2000 to 2019, the tendency of currencies to weaken after rate rises disappeared or shrank once forward-looking expectations were included[17].

4 This was the won, not a weak dollar

The won rose far more than the broad dollar moved, and more than its Asian neighbours, so the explanation points to Korea. In emerging economies capital inflows rise when the dollar weakens, and the dollar remains an important global factor[18]. From 2 Jul to 16 Oct, at New York noon rates, a dollar came to cost 13.3% fewer won while the broad dollar index rose 0.6%[11,12]. A dollar bought 1.8% fewer yen but 1.7% more Taiwan dollars, the currency of a fellow chip exporter[13,19].

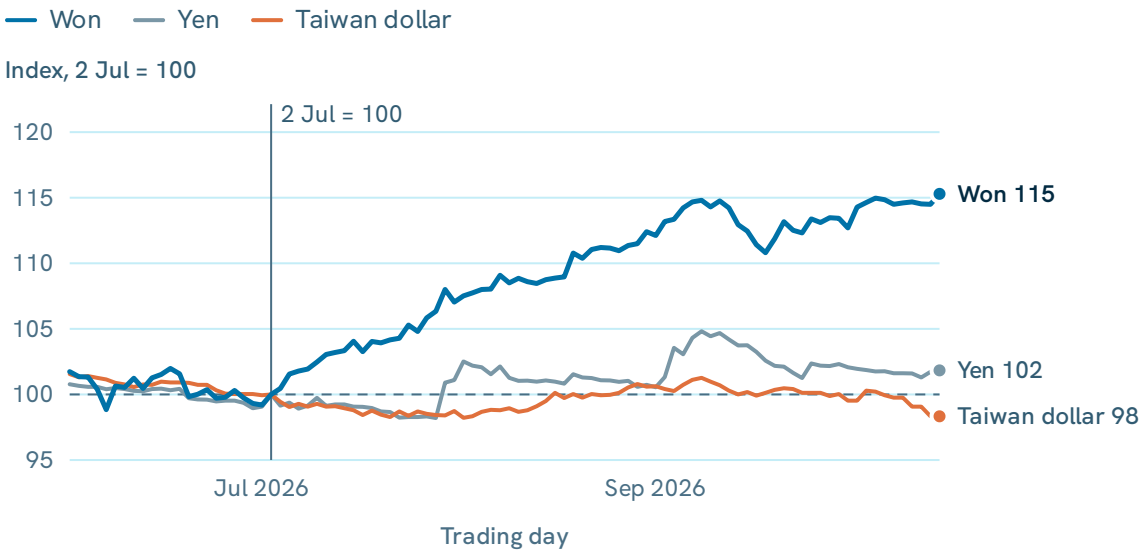
The chart below shows the three currencies from 1 Jun, each set to one hundred on 2 Jul.

The month before the meeting week looks the same. From 16 Sep to 16 Oct the broad dollar rose 2.1%, and the yen and the Taiwan dollar each lost about 1.9% against it, while a dollar came to cost 2.5% fewer won[11,12,13,19]. US data for the meeting week itself are not yet out. Against the yuan, the one comparison we can publish, the won gained 0.43% from 16 Oct to 22 Oct[20].

FIGURE 4

From 2 Jul to 16 Oct the won gained far more against the dollar than the yen did, while the Taiwan dollar, a fellow chip exporter's currency, weakened

Value of the won, the yen and the Taiwan dollar against the US dollar · Index, 2 Jul 2026 = 100, daily, New York noon rates, 1 Jun–16 Oct 2026



How to read this chart. Each line is how many dollars a unit of the currency buys, set to 100 on 2 Jul, the day of the won's weakest Seoul close of 2026. Above 100, the currency buys more dollars than on 2 Jul; higher means stronger.

Over the same span a dollar came to cost 13.3% fewer won, while the broad dollar index, the dollar against a wide basket of currencies, rose 0.6%: the won's rise was not dollar weakness.

New York noon rates (Federal Reserve H.10), to 16 Oct; the meeting week arrives with the 26 Oct release. The broad dollar index measures the dollar's strength, the opposite direction to these lines, so it is in the notes and the text rather than on the chart.

Left out: Seoul-market rates for the yen and the Taiwan dollar, which cannot be republished; the yuan, which we have only as the Bank of Korea's won-yuan close, is in the text.

Source: Source: Federal Reserve via FRED; datasteg calculation · Data to 16 Oct 2026 [11,12,13,19]

Calmer markets do not explain the timing either. The VIX, a gauge of expected swings in US stocks, closed at 16.46 on 15 Oct, the US close before the won's best day that fortnight. That was above every close from 2 Oct to 13 Oct and only a little below 14 Oct's[21].

5 More dollars came in than foreign stock selling took out

In the short run a currency follows the net of all buying and selling, and in January–August 2026 the dollars the current account brought in far exceeded those foreign stock sales took out, though how many of them reached the currency market is not measured[4,5]. Like the price at a market stall, a currency moves with who is buying and who is selling today, whatever their reasons; studies call this order flow[10]. In mark and yen trading in 1996, a model with order flow and the rate gap explained more than half of daily moves in the mark-dollar rate, almost wholly through order flow[10]. In a study of major currencies and the Mexican peso from 2006 to 2024, changes in dealer banks' currency positions accounted for most of the monthly moves in exchange rates, and much of the adjustment came through the exchange rate rather than interest rates[22].

Foreign selling was large: in the balance of payments, foreigners sold a net USD 101bn of Korean shares in January–August 2026, including USD 32bn in June, the most in a month since at least 2015[5]. What the data measure is foreigners' net selling of shares, which is how we read the question's "redemptions". In June Governor Shin said such outflows kept the won

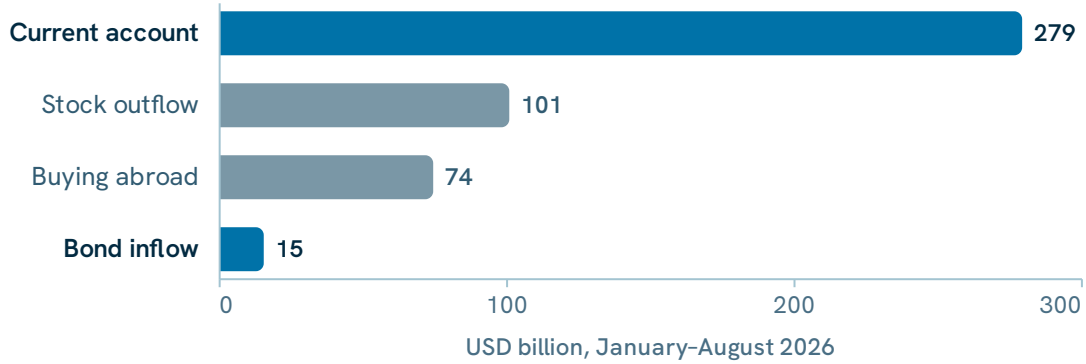
weak despite a large surplus[14]. In a study of Thailand in 2005 and 2006, net purchases of Thai shares went with a stronger baht, and foreign investors did not appear to hedge their currency risk[23].

But the current account brought in USD 279bn over the same months, 2.8 times as much[4,5]. From March it ran at between USD 28bn and USD 50bn a month[4]. Foreigners also bought USD 15bn of Korean bonds, while Korean residents' purchases of foreign securities took USD 74bn out; then-Governor Rhee Chang Yong had said such purchases weighed on the won in late 2025[24,25,26]. Netting these four flows leaves USD 119bn coming in, as the chart below shows; direct investment, derivatives, other investment and reserves are left out, so this is not the whole balance of payments[4,5,24,25].

FIGURE 5

From January to August 2026 the current account brought in USD 279bn, nearly three times the USD 101bn foreigners took out of Korean stocks

Dollars into and out of Korea through four flows, January–August 2026 · USD billion, sum of monthly balance-of-payments flows, size of each flow



How to read this chart. Each bar is a total for January–August 2026, whichever the direction; blue bars brought dollars into Korea, grey bars took them out. Stock outflow: foreigners' net sales of Korean shares. Buying abroad: Korean residents' net purchases of foreign shares and bonds. Bond inflow: foreigners' net purchases of Korean bonds.

These four flows net to USD 119bn into Korea. Direct investment, derivatives, other investment and reserves are left out, so this is not the whole balance of payments.

Left out: the monthly timing. Foreign stock selling was heaviest in March–June (USD 93bn) and turned to net buying of USD 6bn in July–August; this is in the text. Daily exchange data on foreign stock trades for October cannot be republished. Balance-of-payments data end in August.

Source: Source: Bank of Korea, ECOS; datasteg calculation · Data to Aug 2026[4,5,24,25]

For foreign stock flows the balance-of-payments timing fits, up to August. Foreign selling was heaviest in March–June, USD 93bn, when the won was weakest, and turned to small net buying of USD 6bn in July–August as the won rose[5]. The net of the four flows was positive before the turn too, USD 51bn in March–June while the won weakened, but faster in July–August, USD 61bn in two months[4,5,24,25].

Daily exchange data, which we cannot republish, tell a different story from July. In them foreigners went on selling Korean shares on balance in every month, more heavily in September and October while the won kept rising. Their net buying came only in short spells, such as in mid-July and mid-August, and from 16 Oct, the won's best day in October, to decision day, with one selling day in between. The balance-of-payments data end in August, so the two records cannot yet be compared for the autumn.

6 Export dollars arrive, but not on a timetable

The export boom created a large supply of dollars, but when exporters sell them for won is not in the data we could use. Export growth turned up at the end of 2025, reaching 14.7% a year in December, and surged from January 2026, when it reached 37.1%[27]. By September 2026 export values were 89.2% higher than a year before, with higher prices explaining 58% of the rise[27,28,29]. Then-Governor Rhee said the chip boom had helped steady the currency market[30].

Export dollars need not reach the currency market on any given day. Exporters can hold on to dollars instead of converting them[31], and Bank of Korea economists write that Korea's persistent surpluses have been directed more towards overseas investment[18]. In Brazil from 2002 to 2011, daily flows from non-financial customers, mostly trade, were much more strongly linked to moves in the real than flows from financial customers[32]. One published hint in the data we used, residents' foreign-currency deposits at Korean banks, rose about USD 29bn from end-June to end-August, so residents were adding to their foreign-currency deposits, not running them down, as the won rose[1,33].

Taiwan offers a contrast: this year a dollar came to cost 3.2% more Taiwan dollars but 7.6% fewer won[11,13]. We found no study of why the two diverged in 2026. One difference the BIS noted in 2021 is hedging: Korean life insurers hedged close to all of their foreign-currency bond portfolios[34], while the share hedged by Taiwanese life insurers had fallen to just over half in 2019[34]. In April 2025 the won was reportedly used as a stand-in hedge for the Taiwan dollar[18].

Whether the authorities bought or sold dollars is not in our sources. Foreign-exchange reserves rose USD 13bn from end-June to end-September, but changes in the value of reserve assets blur that[35].

OUR READ

The question's two intuitions, that rate gaps set the won and that foreign stock selling pushes it down, describe real forces, but in this episode neither was in charge. Korea's 3-year yield moved little on decision day, which suggests the hold was largely expected[2,6]. The gap with US market rates moved against the won on balance from late August, and the won rose far more than the broad dollar moved, which points to something specific to Korea, such as the flows into and out of it[2,3,12]. The four flows we measured brought in more dollars than they took out, with a current account surplus 2.8 times the size of foreign stock selling in January–August, though they are not the whole balance of payments[4,5]. But they did so on balance in March–June too, when the won weakened[4,5,24,25]. When exporters convert dollars, how institutions hedge, whether the authorities intervened and what moved in the meeting week are not in the data we could use or publish. US data due on 26 Oct and September's balance of payments will test this read.

Terms in this article

base rate
The policy interest rate a central bank sets to steer borrowing costs across the economy. In Korea it is the Bank of Korea's Base Rate. Here: the Bank of Korea's base rate, raised twice in 2026 and then held in October.

bond yield
The yearly return an investor gets by buying a government bond at today's market price and holding it until it is repaid. When bond prices fall, yields rise. Here: the yields on Korea's 3-year government bonds and US 2-year Treasuries, compared day by day.

broad dollar index
The US dollar's value against the currencies of many trading partners at once. A rise means the dollar has strengthened against the world as a whole. Here: the Federal Reserve's nominal broad index, used to test whether the won's rise was just dollar weakness.

current account
A country's earnings from selling goods and services abroad and from investments abroad, minus what it pays for the same. A surplus means more foreign currency comes in from these transactions than goes out.

basis point
A hundredth of a percentage point, the usual unit for small gaps and changes in interest rates.

policy-rate gap
The difference between the interest rates two central banks have set. It says where policy stands today, not where markets expect it to go. Here: the Bank of Korea's base rate minus the top of the US Federal Reserve's target range.

uncovered interest parity
The textbook idea that investors expect a higher-interest currency to lose value by just enough to offset its extra interest. It implies that a currency reflects the whole path of interest-rate gaps investors expect.

expected policy path
Where investors expect a central bank to set its policy rate over the coming months and years. It shows up in market yields of one to three years.

order flow
The difference between orders to buy and orders to sell a currency or other asset over a period, whatever the reason for each trade. More buying than selling tends to push the price up.

balance of payments
A country's record of all money crossing its borders: trade and income in the current account, and investment flows such as purchases of shares and bonds in the financial account. Here: the Bank of Korea's monthly figures in dollars, to August 2026.

currency hedging
Contracts that protect an investor holding foreign assets against losses if the foreign currency falls. Hedging does not mean selling the assets. Here: how much of their foreign bonds Korean and Taiwanese life insurers protect against currency moves.

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