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BANK OF KOREA

Gold in a Diversified, Long-Term FX Reserve Portfolio

Bank of Korea's Perspective

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Current Market Context

- **Gold prices rising rapidly since Q4 2023**
  - Sharp increases of more than 60% in 2025
- **BoK has not purchased gold since 2013**
  - Market criticism regarding missed investment opportunities
- **Purpose:** Clarify background behind recent decisions and outline future direction

BoK's Foreign Reserve Management Principles

- **Primary purpose:** External Payment reserves for crisis situations
- **Priority hierarchy:**
  - Safety → Liquidity → Profitability
- **Core requirement:** Assets must preserve value and be readily liquidated
- **Investment philosophy:** High volatility assets not considered desirable, even with higher return prospects

Limitations of Gold as Reserve Asset (1)

- **Volatility and Returns**
  - **High price volatility** historically (comparable to equities)
  - **Returns generally lower** than equities
  - More or less the **same risk-adjusted returns** as equities
  - **High correlation with US Treasury yields**
  - **Limited diversification benefit** compared to traditional investment assets

Limitations of Gold as Reserve Asset (2)

- **Liquidity and Characteristics**
  - **Less liquid** than bonds or equities
    - ✓Significant costs to convert to cash immediately
    - ✓Difficulty finding trading counterparts
  - **Current market context:**
    - ✓USD/KRW around 1,400 range
    - ✓FX reserves around USD 400 billion
  - **Structural disadvantages:**
    - ✓No cash flows (interest, dividends)
    - ✓Storage costs incurred

Recent Gold Price Surge: Key Drivers

- **Hightened geopolitical risks and uncertainty**
- **Central bank purchases** led by China, Russia, India, Türkiye, and Poland
  - Motivation: Reducing USD dependence or elevated safe asset demand
- **Not a broad-based trend:**
  - Top 5 buying countries account for most of total CB purchases
- **Korea's situation differs** from major gold-buying countries

Market Outlook and Valuation Concerns

- **Prevailing market view: rising momentum** but concern on overvaluation

- **Speculative positioning:**
  - Substantial accumulation of long positions in gold futures
  - Potential downward pressure from position unwinding

- **Timing risk significant for new purchases**

Gold's Strategic Role: Medium to Long-term View

- **Valid Inflation hedge**
- **Alternative investment** to US dollar
- **Should be considered** as viable asset from medium to long term perspective
- **Key consideration**: Requires careful evaluation of multiple factors
- **Reputational risk**: Central banks face challenges if forced to sell for liquidity purposes
- **Bottom line: Timing is crucial**

Bank of Korea's Future Direction

- **Consider additional gold** purchases from medium to long term perspective
- **Link to future trajectory** of foreign reserve accumulation
- **Continue monitoring**
  - Domestic FX market developments
  - International gold market trends
- **Determine appropriate timing and scale** of future investment

Key Takeaways

- BoK **prioritize safety and liquidity** over profitability
- Gold has **structural limitations** as reserve asset
- Recent price surge driven by **specific geopolitical factors**
- Gold remains **viable for medium to long term** strategic allocation
- **Careful monitoring and timing essential** for future decisions