



트레이드 렌즈
TRADE LENS

Bringing investing into focus.

MACRO INSIGHT / No.06

International bond flows and the economics of currency hedging

Korean Government Bonds After WGBI Inclusion

Foreign Demand and FX Hedging

An analysis ahead of scheduled completion in November 2026

CORE VIEW

**The phase-in ends.
The foreign investor base does not.**

**Reinvestment, maturity-specific supply and
hedged relative returns determine persistence.**

Scheduled inclusion, observed flows, issuance plans and illustrative returns are kept distinct.

01 / RESEARCH VIEW

Post-inclusion demand is a portfolio decision

As of 10 October 2026, the phase-in is still under way. This report looks ahead to completion in November.

TradeLens view | From initial index buying to the economics of staying invested

Once the inclusion factor stops rising, the additional buying attributable to that factor ends. The portfolio need to hold eligible Korean bonds does not. **Reinvestment, changes in managed assets, maturity-specific supply and hedged relative returns** become the tests of persistent demand. [\[1\]](#) [\[2\]](#)

01

What is changing?

The eight-stage April–November 2026 phase-in separates initial weight building from ongoing portfolio maintenance.

02

Why does it matter?

Treating all foreign net purchases as fresh currency conversion or ultra-long bond demand misreads the FX and yield effects.

03

Who is affected?

Government funding, domestic absorption, foreign investors' base-currency returns and intermediaries' settlement and hedging activity move differently.

04

What confirms the view?

Track reinvestment and net investment by maturity alongside actual supply, hedge pricing and security-level liquidity.

The report's central proposition

A broader international investor base is a structural change. It is **not the same as a sustained decline in yields at every maturity**. The case for demand after inclusion rests on portfolio holdings and reinvestment—not a fixed inflow forecast.

Scope: international demand for KRW government bonds, FX hedging and funding conditions. No yield or currency targets, trading calls or personalised advice.



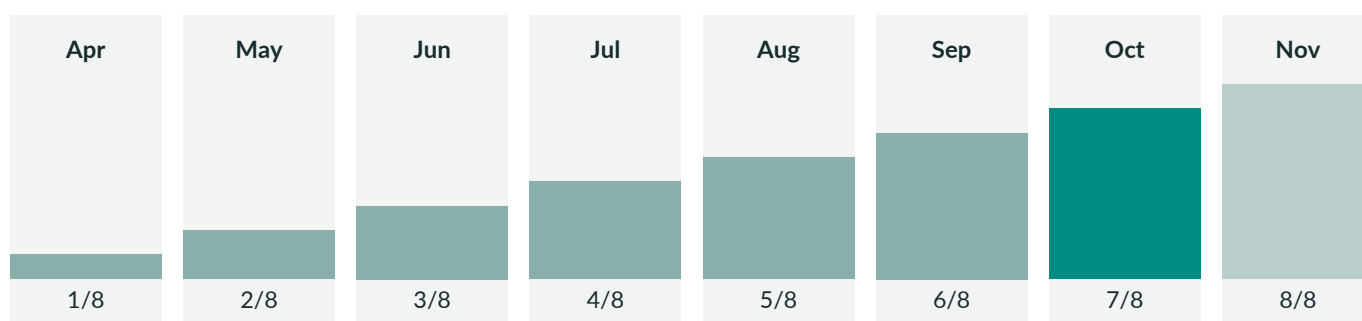
02 / INCLUSION CALENDAR

November completes inclusion, not investment

Separate the scheduled inclusion factor, the actual index weight and investors' execution dates.

FTSE Russell scheduled eight equal monthly inclusion tranches, from the April 2026 index profile through November. Its Q2 2026 report confirms that Korea entered in April. At this report's date, November completion remains **scheduled rather than completed**. [1] [3]

Scheduled inclusion factors by index profile



Source: FTSE Russell [1]. The factors 1/8–8/8 describe the schedule, not Korea's actual index weight or a percentage of realised inflows. October corresponds to 7/8; November to 8/8.

Stage	What changes mechanically	What continues
During phase-in	The rising factor lifts target holdings	Adjustments for prices, issuance and fund flows
After completion	No further increase in the inclusion factor	Constituent changes, fund flows and bond replacement
A bond exits the index	For example, residual maturity falls below the threshold	Rotation into another eligible security or cash reallocation

The index uses market-value weights and rebalances monthly. A bond leaving the index need not mean capital leaves Korea. In particular, a security can fall below the one-year residual-maturity threshold before its contractual redemption date. [2]

Interpretation

Slower net purchases immediately after completion can coexist with stable holdings and reinvestment. That would resemble a **transition from building a position to maintaining it**, rather than a collapse in demand. Execution dates still depend on each mandate.

03 / FLOW EVIDENCE

Cumulative buying can coexist with a net withdrawal

Different periods, instruments and accounting bases do not measure a single inflow.

Observation	Amount	Period and perimeter
Foreign KTB net purchases	KRW37.3tn	30 Mar–26 Jun / trade-date basis [4]
Foreign KTB net purchases	KRW30.7tn	1 Apr–26 Jun / settlement-date basis [4]
Foreign KTB net purchases	Approx. KRW42.4tn	30 Mar–2 Oct / reported OTC-market tally [5]
Foreign listed-bond net withdrawal	KRW4.736tn	August / includes listed bonds other than KTBs [6]
Foreign listed-bond holdings	KRW330.3tn	End-August stock / 11.4% of listed bonds [6]

What the observations do—and do not—establish

Cumulative KTB purchases and a monthly withdrawal from all listed bonds have different perimeters. The table is **neither an estimate isolating WGBI-linked capital nor a same-period performance comparison**. The gap between trade- and settlement-date totals is not unexecuted investment.

Reconcile transactions, redemptions and holdings

Redemptions must be accounted for when translating net purchases into net investment. Market-value holdings can also change through valuation and other adjustments. Fix the statistical perimeter and compilation basis before interpreting the difference.

Distinction	Faulty inference	Analytical treatment
KTBs / all listed bonds	All-bond withdrawal = WGBI exit	Split by instrument, residual maturity and investor
Trades / redemptions	Slower buying = liquidation	Separate selling from scheduled repayment
All foreigners / index mandates	Foreign buying = passive buying	Do not assign a mandate without evidence

Government data reported by Yonhap [4], market reporting [5] and the FSS public summary [6] are shown side by side. Their totals are not subtracted to estimate a particular fund's inflow.

04 / INVESTABLE UNIVERSE

WGBI eligibility is narrower than the won bond market

Trading outside eligible maturities or instruments must not be treated as index demand.

WGBI covers local-currency, fixed-rate, investment-grade sovereign debt. The June 2026 rules apply a one-year minimum residual maturity and a KRW1tn minimum issue size to Korean securities, among other conditions. **The KTB label alone does not establish eligibility.** [2]

Segment	Boundary	Implication for flows
Eligible KTBs	Meet maturity, size and other index rules	Target holdings and liquidity are security-specific
Under one year remaining	Outside the maturity criterion	Selling here is not necessarily liquidation of index exposure
MSBs and housing bonds	Excluded from Korea's WGBI universe	Foreign KRW-bond investment is broader than WGBI
Original maturity above 30 years	Excluded; includes 50-year issuance	Ultra-long supply is not all matched by WGBI demand
Inflation-linked / retail bonds	General index exclusions apply	Separate total sovereign issuance from index-eligible supply

FTSE rules, printed pp.27–29 [2]. Selected criteria only, not the full rulebook. Korea also excludes original ten-year issues dated before 1 January 2003.

On-the-run and off-the-run economics differ

The relevant comparison combines **remaining maturity, available float, executable spreads and lending or collateral utility**. An older bond can occupy the same maturity bucket as a new benchmark issue without offering the same trading cost.

Decision rule | Match the maturity of risk absorbed

More Korean sovereign demand does not mean that purchases of three- to five-year bonds absorb twenty- to thirty-year supply. Match the risk investors want to own with the risk the government brings to market.

05 / BENCHMARK DEMAND

Assets × weight is a target stock, not a new inflow

Target holdings keep changing after inclusion. That does not recreate the initial inflow every year.

Target holding = managed assets × target weight

Required adjustment = new target holding - actual market value held immediately before adjustment. This is portfolio arithmetic, before implementation choices, trading costs and tracking-error limits.

Consider a hypothetical fully included portfolio: USD100bn of managed assets, a 2.0% Korean weight and USD2bn held in Korean bonds. Each row is independent and fixes the pre-adjustment holding at USD2bn. **These are not estimates of WGBI-linked assets or Korea's weight.**

Illustrative condition	New assets (USD bn)	Korea weight	Target (USD bn)	Adjustment (USD bn)
No change	100	2.0%	2.000	0.000
Managed assets +10%	110	2.0%	2.200	+0.200
Assets and weight fall	95	1.9%	1.805	-0.195

TradeLens illustration. In practice, bond and currency prices also change the value held before rebalancing. Do not count the same managed assets repeatedly across overlapping benchmarks.

Reinvestment can create buying without new capital

Reinvesting a redemption of 10 into a new bond purchase of 10 creates a trade but adds no external principal. Rotating between eligible securities can likewise support liquidity while preserving holdings. **A purchase transaction and a fresh cross-border inflow are different events.**

What the arithmetic changes

Completion does not take the target holding to zero. Nor does continued inclusion imply that each year brings another initial allocation. Assess persistence through **holdings, reinvestment and changes in managed assets.**



06 / SUPPLY & DURATION

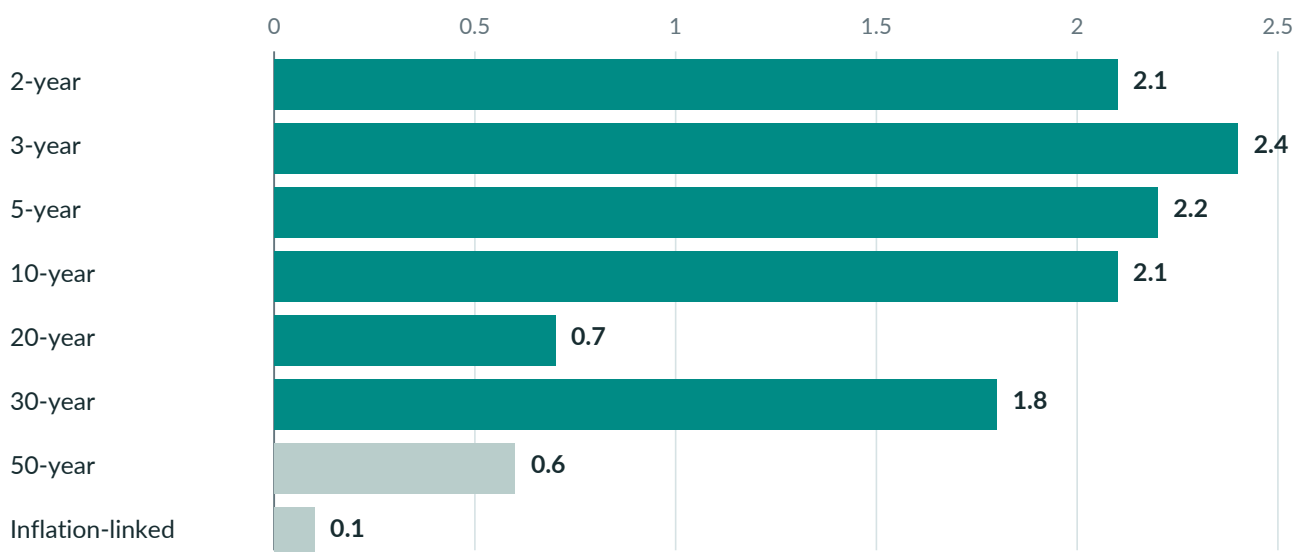
Match foreign demand to the maturity of supply

October issuance is an official plan. It is separate from the illustrative return models later in the report.

October competitive auctions are planned at KRW12.0tn, KRW5.0tn below the original plan. Exchanges, non-competitive allocations and redemptions are separate: **competitive issuance is not net supply**. [7]

October competitive-auction plan

KRW tn · planned [7]



Total: KRW12.0tn. Fifty-year and inflation-linked issues are not WGBI-eligible. Other buckets still require security-level eligibility. [2] [7]

Other supply adjustments	October plan	Interpretation
Pre-maturity buybacks	KRW3.5tn	Withdraw existing bonds; separate from new issuance
KTB exchanges	KRW0.5tn	Reallocates maturities, not fresh cash supply
Non-competitive allocation	Depends on exercise	Final supply also depends on allocations

TradeLens view | Lower supply is also maturity-specific

KRW12.0tn minus KRW3.5tn omits scheduled redemptions and non-competitive issuance. Yield effects depend on **supply and domestic/foreign demand in the same maturity bucket**.



07 / UNHEDGED RETURN

Local returns are not the foreign investor's returns

USD-based, unhedged investment. Exchange rates are KRW per USD; every model input is hypothetical.

$$1 + \text{USD return} = (1 + \text{KRW total return}) \times S_0 / S_1$$

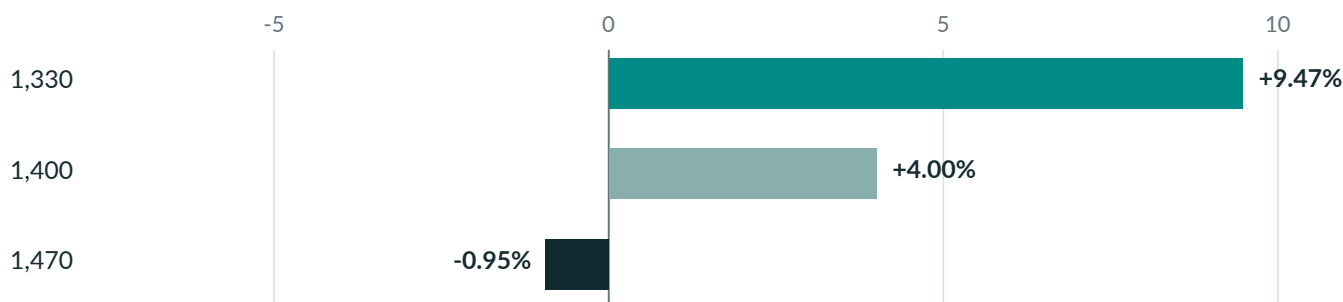
S_0 and S_1 are the initial and one-year-later KRW-per-USD exchange rates. A higher rate means a weaker won. KRW total return includes interest and the bond-price change over the period.

With a 4.0% KRW return and $S_0=1,400$, change only the final exchange rate. Taxes and trading costs are excluded. **The same local result produces different overseas returns.**

Final exchange rate	Change in KRW per USD	USD total return
1,330	-5.0%	+9.47%
1,400	0.0%	+4.00%
1,470	+5.0%	-0.95%

One local return, three USD outcomes

% · illustrative



Calculation: $1.04 \times 1,400 / S_1 - 1$. Currency conversion is reciprocal: adding 4% to or subtracting 5% is not the exact return.

FX interpretation

Bond purchases can use existing won cash, redemption proceeds or FX swaps. A foreign KTB purchase does not equal an immediate spot-dollar sale of the same size. **Track the bond position and currency position separately.** [11]



08 / HEDGED RETURN

FX hedging can subtract from—or add to—carry

The sign depends on the investor's base currency and the forward price. "Hedge cost" is not always negative.

$$1 + \text{hedged USD return} = (1 + \text{fixed KRW return}) \times S_0 / F$$

The one-year KRW principal and interest are certain and sold forward in full for the same maturity. F is KRW per USD. Interim cash flows, tax and collateral funding are excluded.

Assumed forward F	USD return before costs	After 0.10% cost
1,380	5.51%	5.41%
1,400	4.00%	3.90%
1,420	2.54%	2.44%

$S_0=1,400$; fixed KRW return=4.0%. The cost is paid at period-end: 0.10% of initial USD capital. These are not observed forward quotes, KTB yields or forecasts.

Match the rate tenor to the hedge tenor

Covered interest parity (CIP) links same-tenor currency interest rates with spot and forward prices. In practice, hedge demand and intermediaries' balance-sheet constraints can generate a cross-currency basis. **The Korea–U.S. ten-year yield gap is not a plug-in measure of FX hedge cost.** [10]

Sign check | Hypothetical one-year risk-free rates: KRW 4%, USD 5%

Under CIP, $F/S_0=1.04/1.05$, giving $F=1,386.67$. Hedging the certain proceeds produces the same 5% USD return. A USD investor's hedge of a KRW asset need not impose negative carry. This is a matched-credit, matched-tenor no-arbitrage example—not a promise of excess returns.

Comparison rule: align the holding period and risk of the KRW asset and the overseas alternative, then use executable hedge prices and the relevant trading, custody and tax costs. Do not subtract the same spread twice when it is already embedded in a quoted price.

09 / DURATION & ROLLING HEDGES

Hedging FX does not remove rate or funding risk

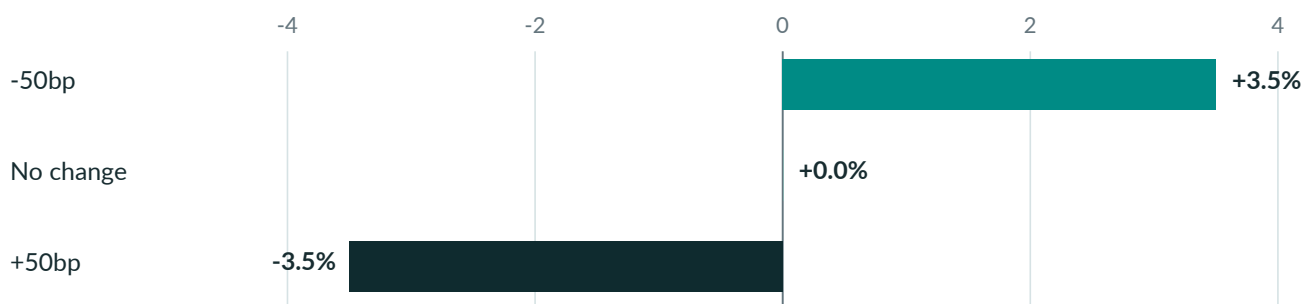
Long-dated bonds funded with short-dated hedges run on different clocks.

Rate-sensitivity model | A hypothetical bond with modified duration of seven

Immediate parallel shock: price change $\approx$ -modified duration $\times$ yield change. Credit effects, curve twists, convexity and accrued interest are excluded. This is a price sensitivity, not a one-year return.

Approximate price response to a yield shock

% · illustrative



Residual risk	Transmission	What tests holding capacity
Interest rates	Bond prices change even with FX hedged	Duration, saleability and valuation loss
Hedge rollover	Future quotes are unknown when a three-month hedge is renewed	Forward points, roll concentration and relative return
Collateral / liquidity	Contract terms may require margin or collateral	Cash buffers, eligible collateral and timing
Unhedged remainder	Only principal is hedged, or bond market value changes	Hedge ratio, interim cash flows and rebalancing

Risk framework informed by BIS FX-derivative research [10] [11]. It does not assert that Korean investors have suffered losses or collateral shortfalls.

Assessment | Attractive returns are not sufficient liquidity

An attractive maturity return cannot prevent selling if interim losses, rolls or collateral calls cannot be financed. Demand requires both end-period economics and funding throughout the holding period.

10 / INVESTOR BASE

Investor domicile does not identify the FX hedge

Domicile, base currency, mandate and actual hedge ratio are different pieces of information.

Japan's GPIF lists **WGBI excluding Japan and China, unhedged in JPY terms**, among its principal passive foreign-bond benchmarks. This does not disclose GPIF's Korean holdings. It does show why foreign investors cannot all be modelled as fully hedged USD accounts. [12]

Investor / strategy	Reason for persistent holdings	Possible source of retrenchment
Index-linked accounts	Benchmark representation and tracking-error control	Fund outflows, index changes and permitted deviations
Pension / insurance allocation	Maturity and currency diversification suited to liabilities	Home-market rates, hedged returns and allocation changes
Reserve managers	Credit, liquidity and diversification objectives	Liquidity needs, mandate and permitted currencies
Arbitrage / relative-value accounts	Pricing across cash bonds, hedging and funding	Basis, repo costs and leverage constraints

TradeLens analytical categories, not estimates of any institution's Korean purchases or plans. BIS research [11] informs the connection between international bond portfolios and FX derivatives.

Regional totals mix opposing strategies

The FSS August summary shows listed-bond net investment from Asia and the Middle East alongside net withdrawals from Europe and the Americas. Region is a starting point—not evidence of a common currency view or a passive-fund exit. [6]

A practical order of analysis

Purpose → base currency → benchmark → hedge structure → maturity holdings → reinvestment. **The same KRW1tn of “foreign buying” can have different persistence and different effects on financial conditions.**

11 / MARKET INFRASTRUCTURE

Lower trading friction is the durable opportunity

International settlement access and security-level liquidity complement each other; they are not interchangeable.



Euroclear announced access through its KSD-linked omnibus account for KTBs and Monetary Stabilization Bonds in June 2024, including links to collateral services. **Settlement eligibility is not index eligibility.** MSBs illustrate the difference: they can be accessible through the infrastructure without being WGBI constituents. [9] [2]

An observed policy response | Off-the-run liquidity

In August 2026, the ministry announced a **KRW0.5tn off-the-run tap-issuance plan** to improve liquidity where WGBI inclusion had raised trading demand. Index participation requires tradability in existing securities, not just buying new benchmark bonds. [8]

Economic participant	Where value can arise	What volume does not establish
Overseas investor	Lower access, settlement and reinvestment friction	An opened account is not a long-term allocation
Intermediary / custodian	Execution, custody, collateral and hedging services	Higher throughput need not produce higher net profit
Government / domestic investors	Broader investor base and potentially better liquidity	Inclusion alone does not identify a yield-reduction estimate

Evaluation

Access reforms provide a **foundation** for persistent demand. Test their effect in bid-ask spreads, executable size, settlement quality and collateral utility. Moving assets between custody accounts must not be double-counted as new overseas investment.

Sovereign demand and private funding costs

Sovereign yields, the won and private credit have distinct transmission channels.

Channel	Potential improvement	Offsetting force
New government funding	Broader demand improves issuance absorption	More supply, global rates and inflation
Domestic bond market	Liquidity and institutional portfolio reallocation	Maturity imbalances and valuation changes
Corporate / bank finance	Part of a lower sovereign benchmark may pass through	Credit spreads, bank funding and capital costs
Won exchange rate	Possible effect of unhedged demand for KRW	Hedges, outward investment, trade and other flows

Market yields do not instantly reset coupons on the government's existing fixed-rate bonds. Fiscal interest costs change through new issuance and refinancing. Private funding costs also include credit and liquidity conditions, so sovereign demand alone cannot determine the saving for companies.

Three post-inclusion paths

Scenario	Conditions to observe together	TradeLens interpretation
Base: holdings become established	Reinvestment holds; domestic and foreign demand absorb maturity-specific supply	Slower initial buying can coexist with stability
Improvement: more diverse demand	Active allocations, hedged returns and trading conditions improve	Persistence extends beyond index-driven allocation
Stress: supply and funding pressure	Reinvestment weakens; supply concentrates; hedging/funding worsen	Relative pricing and liquidity outweigh the inclusion effect

Directional view

The base interpretation is a **change in the nature of demand, not an automatic inflow cliff**. Downgrade that view if weaker reinvestment coincides with adverse maturity-specific supply and hedging conditions. These are conditional paths, not targets or probabilities.

13 / OUTLOOK & MONITORING

Persistent holdings are the test of inclusion

After the November 2026 profile, evaluate flows, hedging and liquidity together.

Indicator	Evidence supporting the view	Evidence weakening it
Holdings / reinvestment	Eligible holdings persist after redemption dates	Selling and low reinvestment persist across periods
Net supply by maturity	Issuance, repayments and demand are aligned	Supply in particular buckets outgrows demand
Base-currency relative return	Matched-risk, matched-period hedged appeal holds	Swap or funding changes erode the holding incentive
Market functioning	Off-the-run trading, settlement and collateral use improve	Wider spreads, concentration and roll pressure
Private-credit transmission	Sovereign and private funding conditions improve together	Credit spreads widen despite sovereign stability

Separate the evaluation horizons

Around completion: align index profiles with trade/settlement dates. **Monthly:** track redemption-adjusted net investment, reinvestment and hedge rolls. **In 2027:** compare new supply with maturity-specific demand. Future observations are not current results.

01

Change

Initial weight building gives way to holdings, reinvestment and regular rebalancing.

02

Importance

Who holds which maturity of risk matters more than a cumulative headline amount.

03

Economic effect

Government, investors and intermediaries benefit differently from demand, returns and market access.

04

Falsification

Reinvestment, hedge economics and liquidity weakening together would overturn the view.

Conclusion: inclusion broadens the investor base; it does not guarantee a stronger won or lower yields across maturities.



Connect the evidence to original sources

Select a teal citation, a source title or “Open source” to open the underlying material.

01. FTSE Russell | March 2025 Country Classification Review

[Open source](#)

8 Apr 2025 · Official announcement · Eight monthly inclusion tranches, Apr–Nov 2026

02. FTSE Russell | Fixed Income Index Guide, v3.1

[Open source](#)

Jun 2026 · Index rules · Printed pp.27–29: eligibility, market-value weights, monthly rebalance

03. FTSE Russell | WGBI 2026 Q2 Performance Report

[Open source](#)

Q2 2026 · Index report · Korea's April entry and eight-month implementation

04. Yonhap | Foreign KTB Net Purchases in the First Three Months

[Open source](#)

30 Jun 2026 · Reports ministry data · KRW37.3tn trade-date and KRW30.7tn settlement-date totals

05. Yonhap | WGBI Phase-In Nears Completion; Year-End Bond Supply in Focus

[Open source](#)

4 Oct 2026 · Market reporting · Approx. KRW42.4tn cumulative KTB net purchases, 30 Mar–2 Oct

06. Financial Supervisory Service | Foreign Securities Investment, August 2026

[Open source](#)

18 Sep 2026 · Official-release summary on KDI · Listed-bond net withdrawal, holdings and regions

07. Ministry of Finance and Economy | October 2026 KTB Issuance Plan

[Open source](#)

1 Oct 2026 · Official-release summary on KDI · KRW12tn auctions, tenor allocation and buybacks

08. Ministry of Finance and Economy | August 2026 Off-the-Run KTB Tap Plan

[Open source](#)

20 Aug 2026 · Official-release summary on KDI · KRW0.5tn off-the-run liquidity initiative

09. Euroclear | South Korean Capital Markets Become Euroclearable

[Open source](#)

28 Jun 2024 · Infrastructure-provider release · KSD omnibus access for KTBs and MSBs

10. BIS | Covered Interest Parity Lost: Understanding the Cross-Currency Basis

[Open source](#)

18 Sep 2016 · Research · FX forwards, matched-tenor rates and cross-currency basis

11. BIS | Global Portfolio Investments and FX Derivatives

[Open source](#)

20 Jun 2025 · Working Paper 1273 · Links between bond portfolios and FX derivatives

12. GPIF | Non-Japanese Bonds: Asset Manager Applications

[Open source](#)

As of 10 Oct 2026 · WGBI ex Japan and China, unhedged in JPY; mandate example only

Scope: index and settlement rules follow their stated versions. KDI entries are summaries of individual official releases; Yonhap supplies reported observations. Earlier BIS research provides a framework, not a causal estimate of Korea's 2026 inclusion.

Methodology, disclaimer and use of this report

Distinguish observed facts, institutional plans, TradeLens analysis and illustrative calculations.

Item	Basis
Analysis / publication date	10 October 2026. November completion is prospective; the official schedule has eight stages, April–November.
Dates and perimeter	June trade/settlement totals, reported market purchases through 2 October and August listed-bond data differ in timing and coverage.
Supply plans	October's KRW12tn competitive issuance and KRW3.5tn buybacks are plans, not net supply or completed execution.
Illustrative calculations	Page 6 assets/weights, pages 8–9 exchange rates/returns/costs and page 10 duration/yield shocks are assumptions.
Model limits	Page 8 converts total returns; page 9 hedges certain proceeds in full; page 10 is an instantaneous price shock. Do not combine them.
Scope	Sovereign flows, international investment and FX hedging. No trading recommendations, yield/FX targets or personalised advice.

1bp=0.01 percentage point. KRW tn=trillion won; USD bn=billion dollars. Calculations use unrounded inputs. Index rules and institutional materials follow their stated versions and do not imply endorsement of this report.

Disclaimer

This report provides general information on macroeconomics, industries and the business structure, growth and profitability of companies. It does not provide buy or sell recommendations, trading timing, fair or target prices, or individualized investment advice. Information and analysis are as of the stated date; accuracy, completeness and continued currency are not guaranteed. Forward-looking views, estimates and illustrative calculations involve uncertainty and do not guarantee principal or investment returns.

Investment decisions remain the responsibility of the reader. Except where liability is established under applicable law, TradeLens is not liable for investment losses arising from use of this report.

Copyright and restrictions on use

The text, charts, design, editing and structure of this report, insofar as TradeLens holds the relevant rights, are protected under applicable law. Other than personal reading and storage, no part may be modified, edited, translated, reprocessed, reproduced, transmitted, reposted, redistributed or sold without prior written consent. This restriction applies to free or paid distribution in any form, including files and screenshots. Removing logos, source citations or rights notices, or distributing the report under another party's name, is also prohibited.

Uses permitted by applicable law and the separate licensing terms of third-party materials remain subject to those provisions. For sharing, please use the report's official TradeLens publication-page link.