

Time and tide for everything

Thursday, November 30, 2017

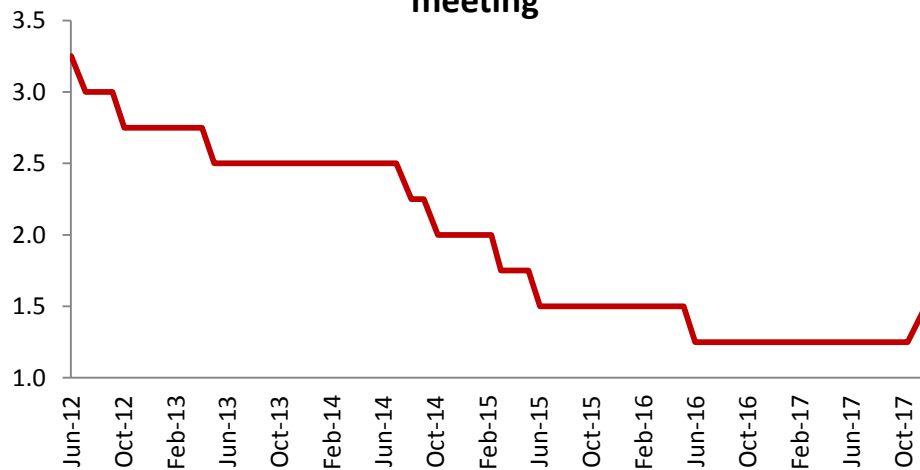
Highlights

- **The strengthening domestic economy and improving external environment led Korea policy-makers to hike rates by 25bps to 1.50%.** This is against our view for BOK to keep rates flat at 1.25%. This is the first rate hike since 2011 by the Bank of Korea, and marking it the first Asian central bank to hike its benchmark rate since 2014. Note that recent economic data was generally positive, including the stronger-than-expected 3Q17 growth at 3.6% y/y and uptick in consumer confidence of late notwithstanding this morning's weaker-than-expected October industrial production print at -5.9% y/y. BOK opines that growth "will be slightly above the rate projected (3.0%) in October".
- **The decision to hike its 7-day repurchase rate is still surprising in our view.** We remain concerned over the intensification of geopolitical tensions, while Korea's business confidence continued to print below its critical 100.0 mark into December. Industrial production also disappointed at -5.9% in October, suggesting that the slack in Korea's business/manufacturing space remains to be seen till today. The consolation is the improvement in consumer spending with department store sales rising a strong 5.3% y/y, while exports were supported by overseas demand for semi-conductors, steel and petrochemical products. We note however, that the rise in consumer spending is also seen with record high household indebtedness to KRW1,419 trillion (or US\$1.3 trillion) in 3Q17, suggesting that today's rate hike could potentially worsen Korean household's debt serviceability into 2018.
- **There is a time and tide for everything, and BOK feels that it is time to hike rates despite the above-mentioned risks.** This suggests the policy-makers' relatively optimistic outlook into 2018. We concur that growth fundamentals have indeed improved; the positive growth in external demand has also gradually transmitted into benefitting Korea's domestic economy. While we still keep to our 2017 growth outlook at 3.5% (we previously upgraded growth from 3.0% on 26th Oct), today's decision to hike rates further reinforces our view for growth to moderate into 2018. Korea would have to contend with a (1) relatively higher growth base, (2) a relatively tighter monetary environment, (3) potentially sustained geopolitical uncertainty and (4) high household debts into the next year. Accounting for these factors, we pencil Korea's 2018 growth to print 3.0%, while inflationary pressures is estimated to stay tame at ~2.0% into next year.

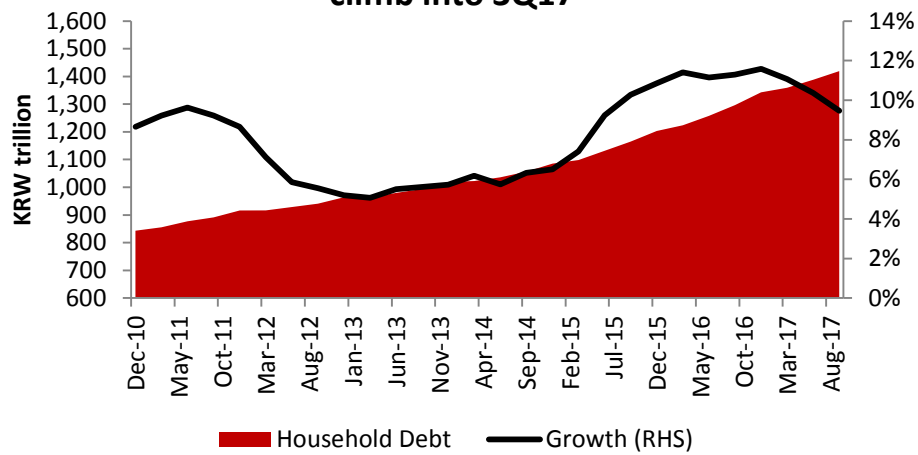
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BOK hikes rates by 25bps in its latest MPC meeting



Korea household indebtedness continues to climb into 3Q17



Source: Bloomberg, OCBC Bank

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