

BOK holding rates amid uncertainties

Friday, July 13, 2018

Highlights

- The Bank of Korea kept its benchmark rate unchanged at 1.50% as widely expected. The unanimous vote amongst policy-makers to keep rates flat signals the pressing need to keep the policy rate accommodative especially given the heightened trade war concerns amid a moderating domestic economy. This is starkly different from BOK's April meeting where two dissenters signaled that interest rates should be increased to minimise the risk of financial instability. Note that BOK governor Lee Ju-yeol commented that uncertainties remained "high", while considering that inflation pressures "aren't big on the demand side".
- We note that the official rhetoric is relatively bearish in fashion, owing to official highlights that Korea's labour market remains weak amid slowing investment activities. Meanwhile, we note that incoming economic data since 2Q18 showed that exports and manufacturing PMI prints were disappointing, and could further exacerbate should trade issues worsen in the foreseeable future. To give more colour on the extent of economic woes Korea could face should trade issues worsen, 79% of all Korea's exports to China are intermediate goods in nature, while China is Korea's biggest export market accounting for 24% of total exports.
- While the Bank of Korea has refrained in moving rates, policy-makers downgraded its 2018 growth outlook to 2.9% (down from 3.0%) while citing GDP to potentially slow to 2.8% into 2019. 1Q18 GDP growth pace was a tad lower at 2.8%, while incoming export prints at -0.1% y/y in June underscored potential external environment woes given the high base year seen in 2017. Inflation was also been disappointing at an average of 1.4% in 1H18, below BOK's target of 2.0%. In a nutshell, we note that the downside risks to headline growth and inflation have intensified in recent months, while BOK's growth downgrade reinforces the downside risks already present to-date.

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