

Ma Tieying
Economist

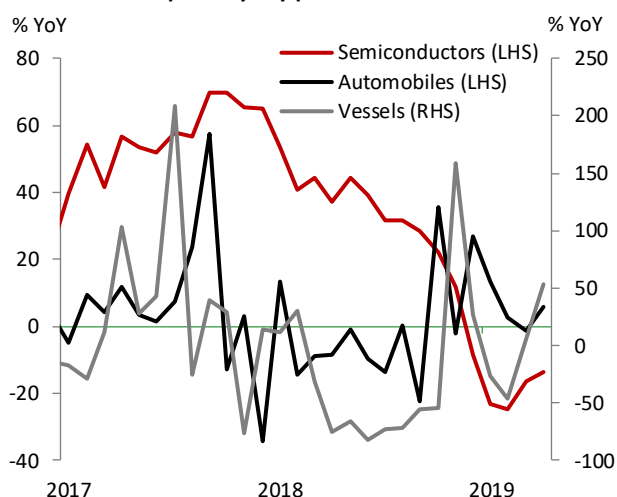


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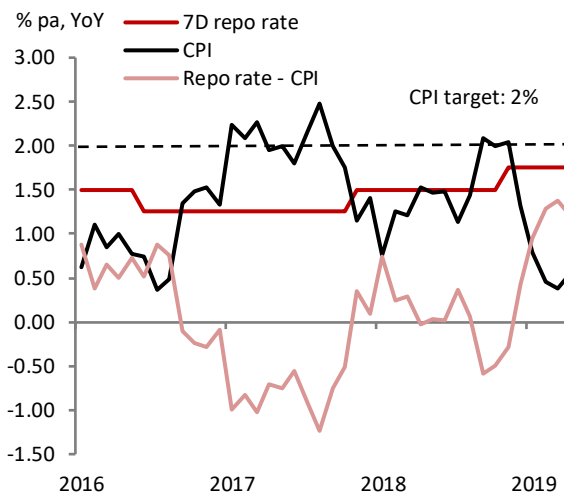
Charts of the month

- Encouraging signs abound from recent exports, PMI, business, and consumer confidence indicators.
- Chances are high that GDP growth will rebound modestly in 2Q after a temporary contraction (QoQ) in 1Q.
- The return of China-US trade tensions, however, creates new uncertainties.
- The easing of inflation/property prices provides the flexibility for the Bank of Korea to cut rates to support growth. An escalation of trade tensions could prompt the BOK to move.
- The KRW is facing depreciation pressure not only due to economic weakness, but also the fragile market sentiment caused by trade tensions and geopolitical risks.
- We maintain our GDP growth forecasts at 2.1% for 2019 and expect a 25bps rate cut in 3Q.

South Korea: Exports by key products



South Korea: Nominal and real interest rates

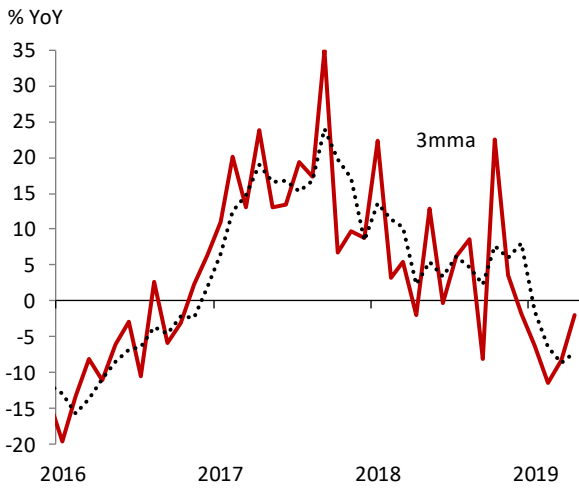


High-frequency indicators – Exports

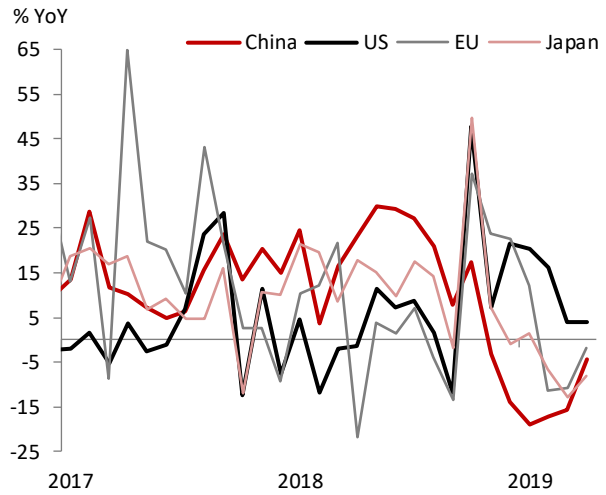
Exports continued to contract in April, but the pace has eased notably versus 1Q (-2.0% YoY, vs -8.6%).

The decline in exports to China has narrowed to single digit rate (-4.5% in April vs -17.3% in 1Q), in line with the recent signs of stabilisation in the Chinese economy.

South Korea: Export growth



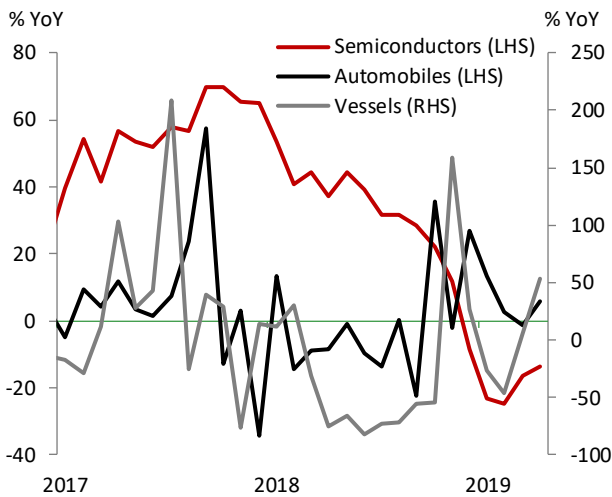
South Korea: Exports by key market



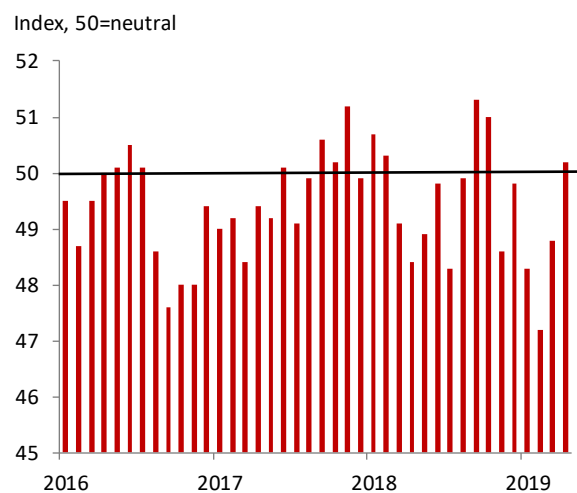
The decline in semiconductor exports has moderated for the second month in a row, supporting the case of a cyclical bottom in the tech sector.

Manufacturing PMI returned to the expansionary territory in April (50.2), for the first time over half a year. New orders, output and employment improved the most.

South Korea: Exports by key products



South Korea: Manufacturing PMI

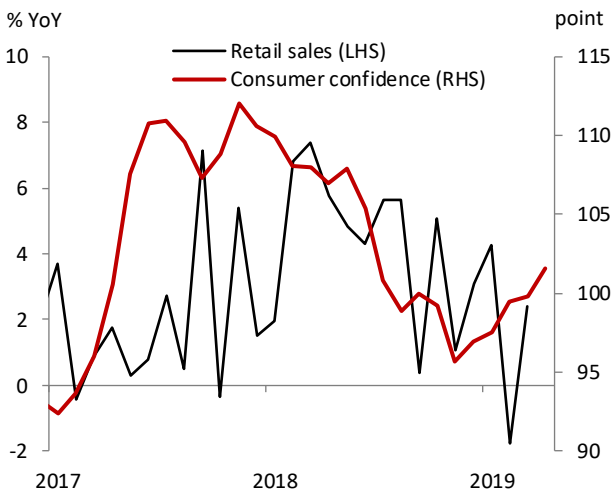


High-frequency indicators – Domestic demand

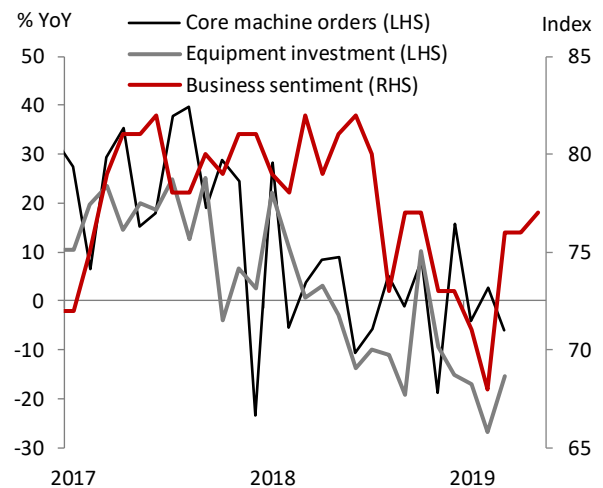
Consumer confidence has risen above the neutral level in April, for the first time over seven months. Expectations for general economic outlook and employment conditions rose the most, helped by the government’s stimulus.

Business sentiment has also picked up, thanks to the broad improvement in the outlook for new orders, production, export sales, and domestic sales.

South Korea: Consumer confidence & retail sales



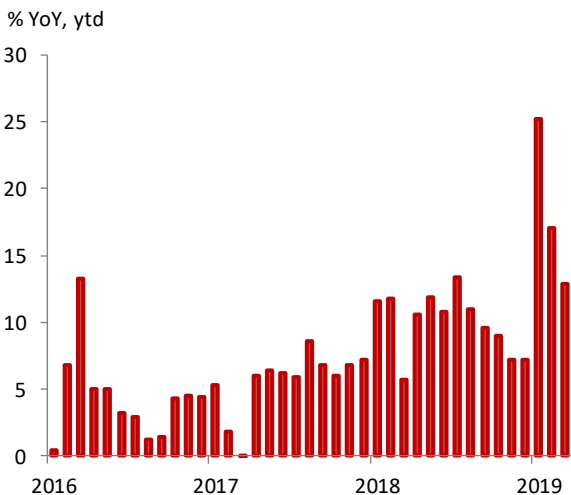
South Korea: Business sentiment & capex indicators



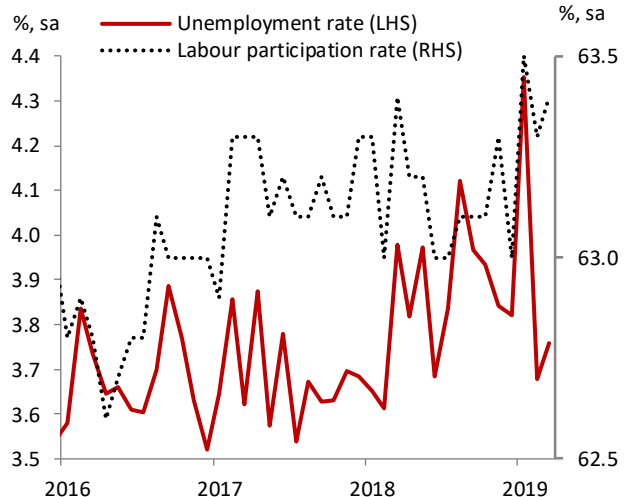
Government spending increased strongly in 1Q, thanks to the expansionary fiscal policy and front-loading of FY19 budget. Stimulus effects could last into 2H, given the proposal of a KRW 6.7tn supplementary budget in April.

Labour market conditions have begun to improve, as evidenced by the decline in unemployment rate and the rise in labour participation.

South Korea: Central government expenditures



South Korea: Labour market indicators

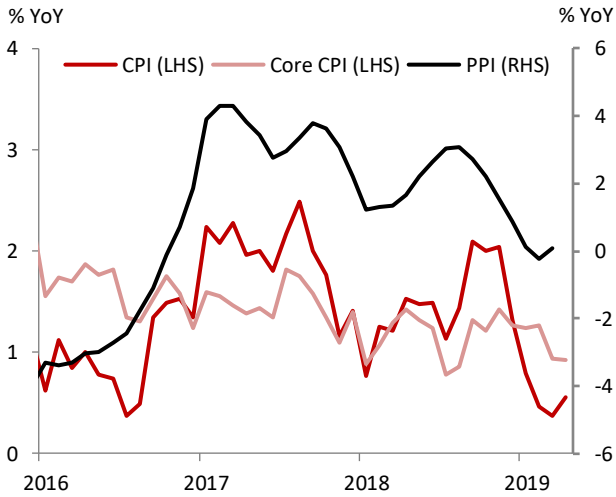


Monetary

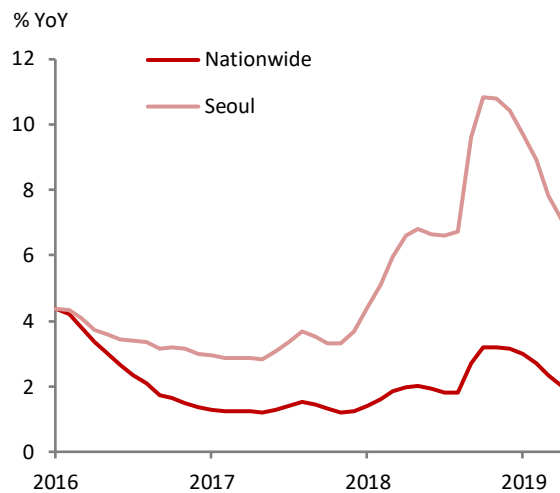
Inflation pressure has remained muted. Headline and core CPI stood at 0.6% YoY and 0.9% respectively in April, both below the central bank's 2% target by a wide margin.

Housing prices have maintained an easing trend, led by the Seoul area; reflecting the effects of the government's cooling measures introduced since late-2018.

South Korea: CPI and PPI inflation



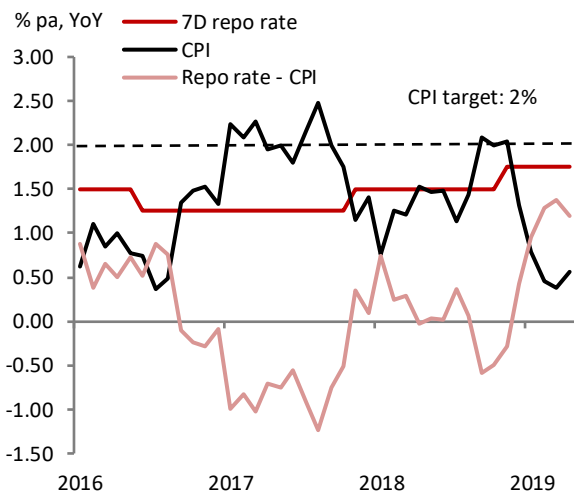
South Korea: Housing prices



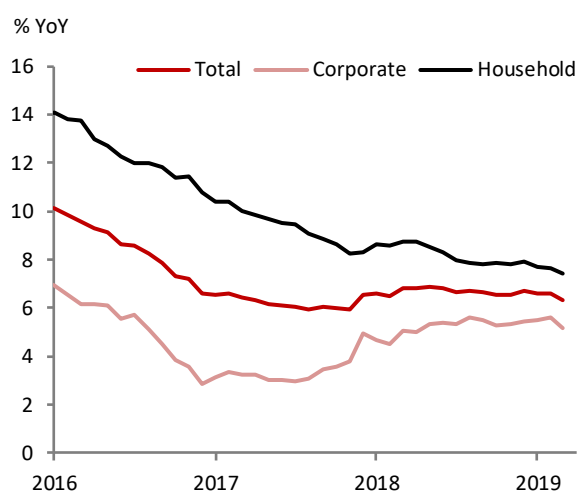
With real interest rates turning positive and back to the normal levels, there is adequate room for the Bank of Korea to loosen monetary policy.

The expansion in household debt poses a potential hurdle for monetary easing. Bank lending to the household sector has slowed to single digit rate, but still outpaced GDP growth.

South Korea: Nominal and real interest rates



South Korea: Bank loan growth

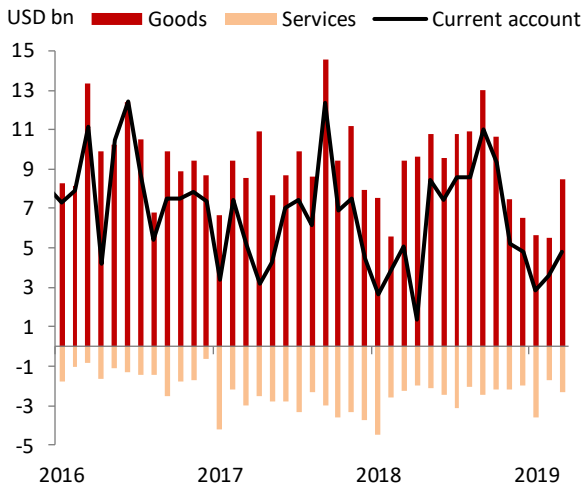


Capital flows

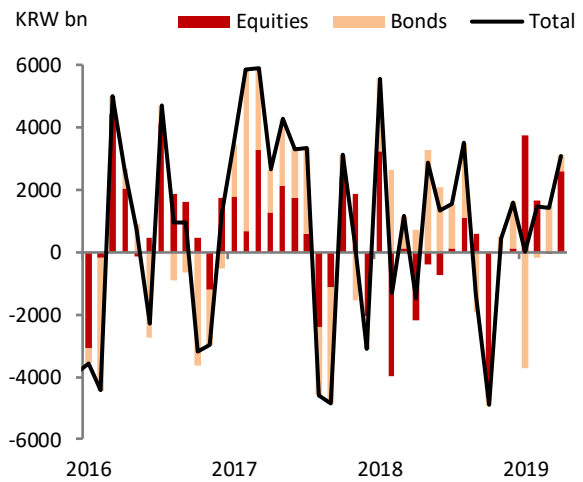
Current account surplus has narrowed due to weak exports, but still equivalent to a sizeable 4.5% of GDP as of March (sa, 12-month rolling basis).

Foreign inflows into Korean equity and bond markets have remained buoyant as of April, despite the negative news flows e.g., Samsung’s poor earnings results, Norway sovereign wealth fund cutting exposure to EM bonds.

South Korea: Current account balance



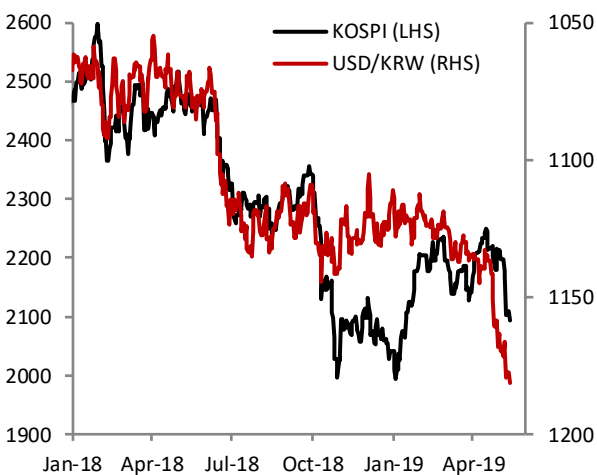
South Korea: Foreign equity and bond inflows



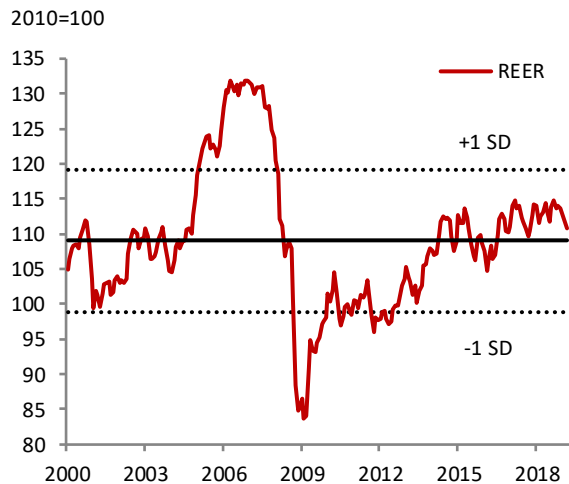
The KRW’s depreciation vs the USD has accelerated since the second half of April, probably due to the 1Q GDP shock, and subsequently, North Korea’s missile tests, and the return of China-US trade tensions.

The KRW has depreciated not only against the USD this year (-5.5% YTD), but also against the currencies of major trade partners (KRW REER: -2.5% in Jan-Mar).

South Korea: USD/KRW spot vs KOSPI



South Korea: KRW real effective exchange rate



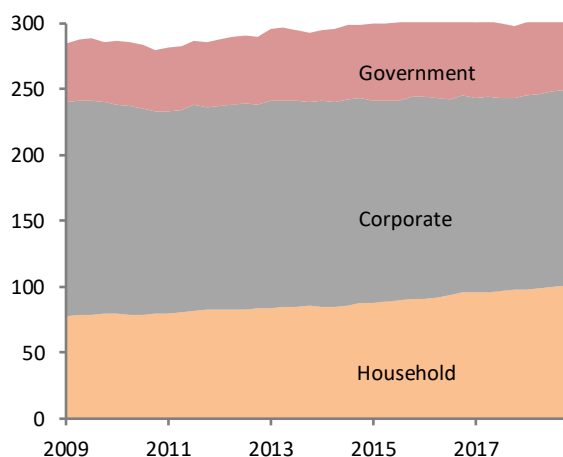
Domestic and foreign debt

The expansion in domestic household debt is a potential source of financial instability risks. Household debt-to-GDP ratio has hit a record 100% as of end-2018.

External debt coverage remains strong. External asset-to-external debt ratio and foreign reserve-to-short term external debt ratio stood at 2.1 and 3.2, respectively, at end-2018.

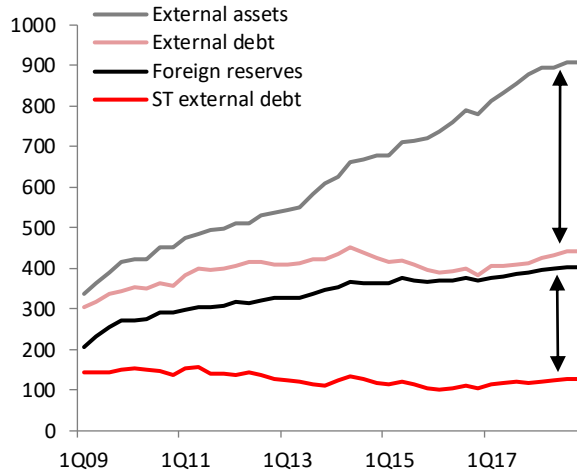
South Korea: Public and private debt

% of GDP



South Korea: External position

USD bn



Forecasts on major indicators

	GDP				CPI inflation			
	2017	2018	2019f	2020f	2017	2018	2019f	2020f
Annual change (% YoY)	3.1	2.7	2.1	2.4	1.9	1.5	1.1	1.5

Exchange rate and interest rates forecasts

		1Q19	2Q19f	3Q19f	4Q19f	1Q20f	2Q20f	3Q20f	4Q20f
USD/KRW	eop	1137	1170	1180	1170	1165	1160	1155	1150
Benchmark repo rate	(%, eop)	1.75	1.75	1.50	1.50	1.50	1.50	1.50	1.50
3M CD rate	(%, eop)	1.90	1.90	1.76	1.76	1.76	1.76	1.76	1.76
Government bond yields	3Y (% eop)	1.69	1.75	1.75	1.75	1.75	1.75	1.75	1.75
	10Y (% eop)	1.83	1.95	2.05	2.05	2.05	2.05	2.00	2.00
	10Y-3Y (bps)	14	20	30	30	30	30	25	25

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).

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