

## BoK Preview - January 2021

**Announcement Data:** Friday 15 January 2021

**Announcement Time:** circa 0030GMT/0930KST – 0130GMT/1030KST

The Bank of Korea is expected keep its policy rate unchanged at a record low of 0.50% at its January meeting, all analysts surveyed by Bloomberg expect rates to remain on hold. The South Korean economy is improving, but the bank will likely remain cautious about the outlook amid the uncertainties caused by the resurgent coronavirus.

In a New Year message, Chairman Lee Juyeol said policy will remain accommodative to support the economy and that he expects the inflation rate to stay below target for a while. The bank will be focused on labour market conditions in managing monetary policy in future, he added.

There is speculation the BOK will expand unconventional measures in future to lower long-term interest rates, although some board members continue to be concerned about financial imbalances, including the rise in real estate prices.

The bank specifically targets financial and FX market stabilisation and purchased KRW 11tn of KTB's in 2020 to this end. The bank currently holds around 39.8% of total domestic assets on its balance sheet. It is worth keeping in mind that the government has front loaded the budget for the first half of 2021, which would suggest purchases will also be front loaded.

### SLOWDOWN

BOK officials are also watching to see how the decision to extend social distancing restrictions in the Greater Seoul area for two weeks affects economic activity, mainly consumer spending. Restrictions will continue until Jan. 17 as the country battles to contain a third coronavirus wave.

South Korea's exports rose 12.6% y/y in December, accelerating from 4.0% growth in November, thanks to recovering global demand for IT-related goods and automobiles. But for year as a whole, exports fell 5.4%.

In its monthly trend report the government-backed Korea Development Institute said that despite the recovery in manufacturing, the economy "remains subdued led by the service industry." The sluggishness appears to have worsened since mid-November due to the nationwide resurgence of Covid-19 and tighter quarantine measures, KDI said.

Other data has not painted a positive picture of the economy. CPI and labour market data were both weak at the latest releases. These metrics are notoriously fickle and the BoK board are expected to look through temporary weakness.

### OUTLOOK

KRW has been rangebound in recent weeks, but risks appear to be to the upside. A vaccine is expected to be approved for emergency use by February 2021, and while consumption indicators were weak at the start of the third wave it appears the economy has given some concession to the Covid new normal, while a bumper fiscal package should also mitigate impact.

South Korean President Moon Jae-in said recently there were plans to strengthen alliance with the US, while continuing its efforts to revive talks with North Korea. Morgan Stanley say these are likely positives for South Korea: "The Fed's pro-growth stance, the incoming Biden administration's multitrillion-dollar relief package and the coronavirus vaccination will revive and sustain risk appetite while boosting EM Asian currencies in general once the market finally digests the Fed's tapering talk."