

Bank of Korea - looking through labour weakness

Not one single forecaster expects the Bank of Korea to cut rates again this week despite a very soft labour report for December. We agree, but the consensus probably underestimates the risks of some further easing



Source: Shutterstock

Can the consensus all be wrong?

It is unlikely that the twenty out of twenty economists that have all predicted no change at Friday's Bank of Korea rates meeting will be wrong. But most of the forecasts will have predated the very weak labour report for December that was released on 13 January.

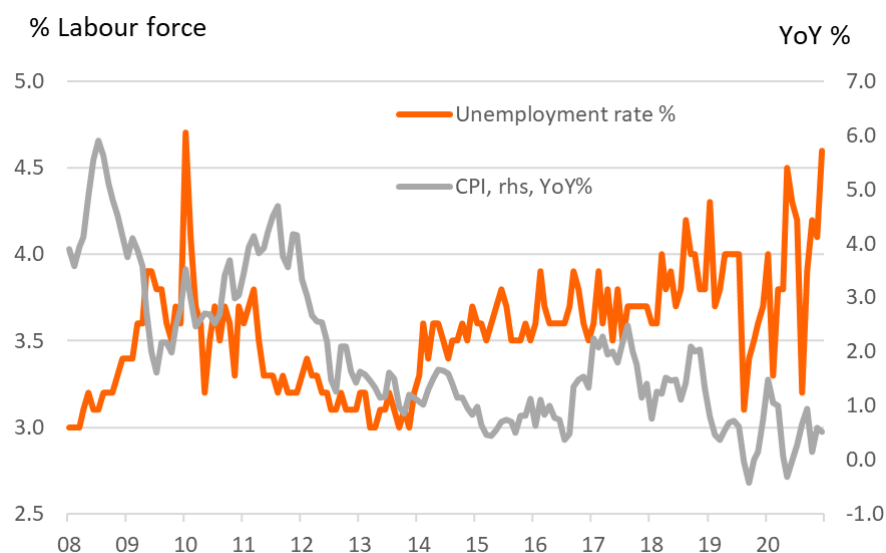
That release showed a large fall in employment that was almost exactly mirrored in rising unemployment. If that sounds obvious, it isn't. Employment and unemployment are rarely mirrors of one another, so when that does happen, it does hint that the two are related, and in this case, that lost employment has led to rising unemployment. That isn't a favourable backdrop.

The Korean unemployment rate in December rose from 4.1% to 4.6%. Unemployment rates are "nasty" and unreliable bits of data and need to be treated with great care. But one of the things

that often drive big upswings in the unemployment rate - a surge in the labour force - did not happen in December. Indeed, quite the opposite. So it all begins to look as if this was a genuinely weak release and one that could realistically be taken into account in the coming BoK meeting.

So why won't it?

Korea unemployment rate and inflation



Source: CEIC
Korea unemployment rate and inflation

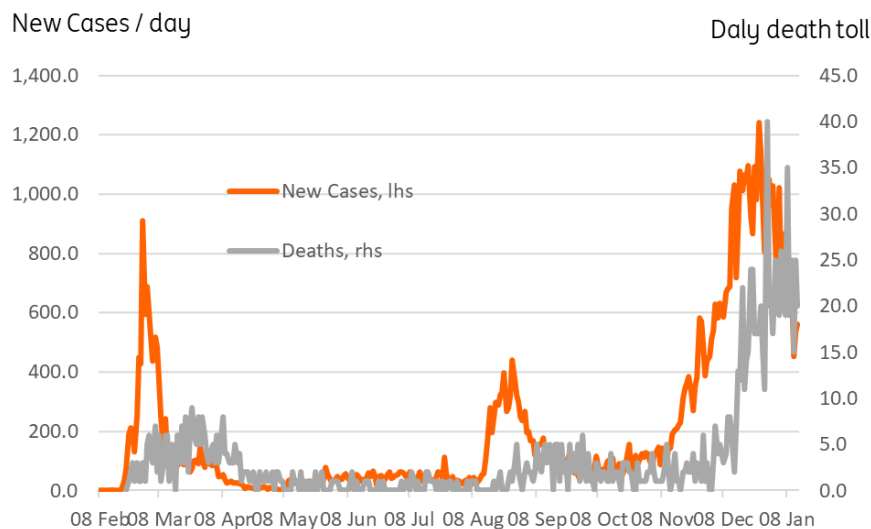
Inflation is not a great reason not to ease further

One of the other arguments often used for justifying monetary accommodation, inflation, is not much help either for the "no-cut" camp. Current headline inflation is only 0.5%. But like many other economies around the world, headline inflation rates in Korea are heavily depressed by the negative price effects stemming from the Covid-19 pandemic's first hit in March to May of 2020. What this means is that if the current run-rate of inflation persists into 2021, then we should expect inflation to pick up through the second quarter of this year, and could even come quite close to 2.0%YoY by mid-year. So although current inflation rates look supportive for further easing, a bit of further consideration suggests that it isn't.

Covid-19 is not a good argument for easing

The recent Covid-19 figures for South Korea haven't been fantastic, but by international standards, they remain extremely good. Average daily cases are currently about 600, which is well down from 1000+ which they were a few weeks ago. If you think about the 5,000 plus cases in Japan, 10,000 plus cases that are being counted in Indonesia, or the 45,000 or so cases in the UK currently recorded, then Korea is in fact doing remarkably well, something we have documented in longer pieces on this economy. But it is also fair to say that the political tolerance for Covid in Korea, as in much of the rest of Asia, is very low, and restrictions on movement could be introduced at much lower levels than in Europe or the US. But in any case, there isn't much of a role for a further 25bp of rate cuts at present, in the face of the current Covid problems. Rate cuts don't stop the virus.

Korea Daily Covid cases and death toll



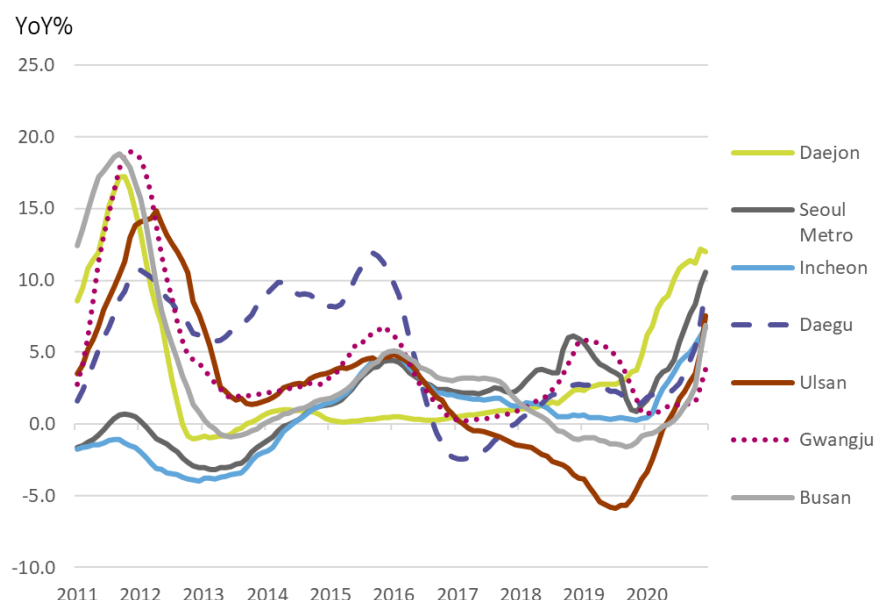
Source: CEIC, WHO

Korea daily Covid cases and death toll

Political opposition to rate cuts

One thing we shouldn't discount in this consideration is the political concern in Korea about the rates of household debt and house price inflation. House price inflation nationally is about 8.3%YoY, but it is much higher for the Metropolitan Seoul area and Daejeon, exceeding 10% in both regions. This is a big political concern, and the Bank of Korea is not insensitive to the government's worries, presenting a further reason for the BoK not to respond this week with further easing.

Korean house prices rise



Source: CEIC

Korean house prices

Summary

So can you make a case for a further rate cut this Friday? Yes. But it isn't a particularly robust one. It rests on cutting for the sake of cutting, realizing that it won't actually do a great deal of good, but that it is better to be seen to be doing something even if that something is a bit pointless.

I don't think that is a sufficiently compelling argument for the Bank of Korea in the face of arguments not to act, and nor does it seem that anyone else does either. That is not to rule out a rate cut completely. The KRW may have a small rally on the day in the event that the BoK does nothing as expected. Further moves in the KRW will be dominated by USD trends.

Author

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist
michieltukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania
valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com