

## Expect no Bank of Korea rate hike this week

A stronger external environment, but a softer inflation outlook means a rate hike's unlikely.



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### Optimistic global economic outlook

The Bank of Korea releases its quarterly Economic Outlook report this Wednesday, July 13th. In April's report, the BoK nudged up its growth forecasts slightly to 2.6%YoY for 2017, and 2.9% for 2018. This looks too optimistic to us. In the June policy meeting, Governor Lee signalled another upgrade to the growth forecast. But there are some grounds for BoK optimism. Its last summary of global economic conditions suggested Euro area GDP growth of 1.7% and 1.6% GDP (2017 and 2018). However, the run-rate for Europe this year is probably closer to 2.0%, with 2.5% a possibility for 2018 if investment continues to improve. So some upgrade here is possible.

The BoK's US and Japanese economic growth forecasts of 2.1%, 2.2% and 1.2%, 1.2% for the same time period are unlikely to warrant much revision. Likewise, China, at 6.5%, looks in the right area – maybe a touch stronger, and requires no amendment. That said, external factors seem to be having little or no discernible impact on production or net trade flows, and consequently, the domestic outlook doesn't look likely to require any revision either.

# 1.25%

## 7-day repo rate

Unlikely to change for the foreseeable future

### Questionable inflation report

The upward nudge to the BoK forecast for 2017 CPI inflation in the April report also looks more questionable, with oil prices moving back from \$50 to a \$45-50 range, and caps on Libya and Sudanese production failing to avert signs of a further price drift lower. The BoK's base assumption is that oil prices will test higher again later this year, which looks like a mean-reverting forecast with little to support it. Though it is probably too soon for the BoK to revise its inflation forecasts lower; this is the risk for their outlook for the second half of the year.

On balance, a stronger external environment, but softer inflation outlook mean a policy change looks to be unnecessary. If a 'taper tantrum' in global bond yields later in the year puts the Korean won under weakening pressure and the inflation figures start to shoot up, then this view will have to change. But for now, it's steady as she goes.