

## Korean economy strengthens

Korean business sentiment data from the Bank of Korea show it is not just the domestic economy that is beginning to fire again, exporters are also increasingly benefitting



Source: Shutterstock

**57** Manufacturing index  
BoK survey (August)

### BoK's business survey rises strongly

Korea's strong handling of the Covid-19 pandemic and avoidance of widescale lockdowns has given it an advantage in the recovery race, allowing domestic demand to bounce back more strongly than its restricted regional peers. But the latest ("August") [business survey from the Bank of Korea](#) suggests that the good news is now more broadly spread, with exporters also seeing an improvement.

The headline index for manufacturing firms (non-seasonally adjusted) rose to 57 from 51 the previous month, and sub-indices for exporters show the index at a punchy 68, up from 60. We

don't have a sector breakdown of this, and my guess is that this is dominated by semiconductor firms. But still, a rise is better than a fall.

Strength in the survey was evident across most indices, with sales, production and new orders all rising, and inventories marginally declining (suggests production gains are sustainable). There was even some suggestion of a return of pricing power, as the sales price index rose fractionally more than the purchase price index. Cash flow indices also improved. The only fly in the ointment was a small decline in the employment index.

Non-manufacturing firms also registered gains, but having been ahead of the manufacturing sector in this recovery, the gains were more muted, even though the level of the index is higher (60, up 1 from 59 the previous month - non seasonally adjusted).

We had already concluded that the BoK was done with easing this cycle. It is still far too soon to start thinking about any reversal of monetary easing, but the improved data could set up the KRW for a renewed push through 1190 for a run at 1180, which is a level it last saw back in early March.

## The economy is ruined - buy stocks!

[James Knightley has written up the latest FOMC meeting here](#), and all I want to add is my own irreverent take on the proceedings.

Chair Powell gave a pretty downbeat assessment of the economy and noted the mounting risks to growth. The implication from all of this is that policy will remain very accommodative for a long time. But we knew that, and the warning from Powell that markets are still expecting too smooth a recovery, rather than injecting a note of caution into their behaviour, seems simply to have provided another excuse for them to rally on the notion that the gravy-train of free money will be around for years.

Let's be clear, there is no hint of *more* easing unless you are focussing on the circus of new fiscal stimulus spending. But as I noted yesterday, if you are currently in receipt of supplemental unemployment benefits in the US, what you are really facing is a pay cut, not a pay rise, the only questions remaining to be answered are, when, and how big? That doesn't sound particularly "risk-on" to me.

We also got no change in the Fed's overall strategy - so all the talk of price-level targeting and running inflation "a little hot", can wait for another day. The received wisdom is that we will hear more about this in September. This remains, in my view, an irrelevant discussion about an unattainable target. If we can't hit 2% inflation with the current stance, then we certainly won't be able to exceed it. And I suppose if they are seriously going to try (I don't think they should), then that does suggest we ought to consider the possibility of even more extreme policy measures including negative rates in due course. Remind me to buy some more physical gold this weekend...

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