

Bank of Korea cuts rates 25bp

BoK cuts 7-day repo rate 25bp to 0.5%, but no strong indication that Quantitative Easing is imminent



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0.5% 7-day repo rate
follows 25bp cut

As expected

Growth outlook slashed due to Covid-19 uncertainties

After cutting rates 25bp as expected today, the BoK also revealed a reduction of their 2020 growth forecast from 2.1% to -0.2% (not far off our +0.3% forecast, which we recently revised higher from -0.3%) and the outlook for 2021 was noted as being subject to considerable uncertainties (we are only expecting 1.8% growth in 2021 in our base case forecast, but indeed it would be nice to just say, too hard to call...).

Rates now at effective lower bound...

In the subsequent press conference, BoK Governor Lee noted that at 0.5%, the 7-day repo rate (policy rate) was now very close to its effective lower bound. The [statement](#) omitted previous text that the BoK would “*judge whether to adjust the degree of monetary policy accommodation*”, which many have interpreted as indicating that rate reductions have reached their conclusion.

...but no clear hint that QE is imminent

Even though conventional monetary policy may have reached its limits, it was not clear that the BoK was gearing up for a substantial move towards Quantitative Easing.

It appears that the BoK has already bought some Korean Treasury bonds in the secondary market, though it is less clear if this was through an expansion of the balance sheet and printed money which would put it into QE territory, or not. In either case, it looks more like a market-smoothing operation than a concerted attempt to drive yields lower.

Governor Lee said the BoK remained ready to buy bonds. But rather than pushing a QE interpretation, it again sounds as if this would be a conditional move in response to market volatility, and there were various remarks about herd market behaviour and one-sided market moves to support this view.

So although the BoK is still saying that it remains “ready to buy bonds”, we don’t think this is under the context of an imminent QE programme, more of an ad hoc adjustment in case of market volatility.

A more reasonable interpretation is that the BoK is now taking a back seat to the government and anticipating a more forceful fiscal response to provide the bulk of ongoing support for the economy

Today’s decision was unanimous, aside from one new member who did not take part as he was still making changes to his financial exposures to be compliant with regulations.

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