

## Bank of Korea hikes again - leaves options open

The January hike was consensus, but it was still controversial given the backdrop of high Covid and a spike in December unemployment. Governor Lee left open the possibility that rates would have to increase to more than 1.75%



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**1.25%** 7-day repo rate  
up from 1.0%

As expected

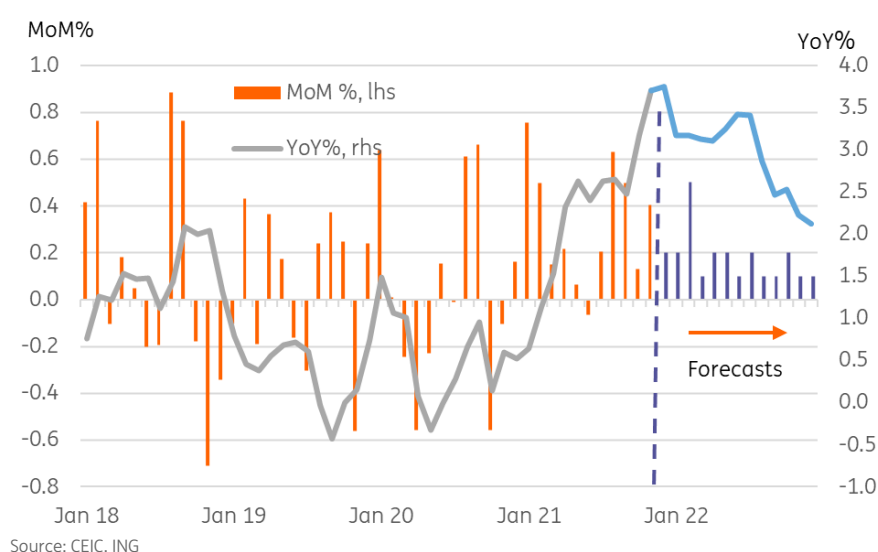
### Jan hike was consensus, but signals are very hawkish

If the January rate hike by the Bank of Korea (BoK) from 1.0% to 1.25% was consensus, the subsequent press briefing was anything but. The Bank of Korea (BoK) has a reputation for being hawkish, and they have lived up to that today. Even today's decision was controversial. Korea has

been weathering a new Covid wave and this and the resulting movement restrictions on the population led to a spike in the December unemployment rate that could easily have been used as an excuse to pause at this meeting, and resume hiking later.

Admittedly, inflation in Korea is quite a lot higher than the BoK would like at 3.7%YoY (November latest figure), but it has already come down from its recent peak of 3.8%YoY and should start to come down to about 3.0% once the January figures are released - though it may hold up for a while during 3Q22 before dropping back in line with the BoK's 2% inflation target at the end of the year. Core inflation rates are also elevated but straddle the BoK's target, and probably give a better view of where inflation is heading in the medium term than headline numbers. We expect the 4Q21 core inflation rate to come in at about 2.1%.

## Korean inflation and forecasts



## Key points of the press conference

Here are our main takeaways from Governor Lee at today's press conference:

1. Much more weight is being given to what the Fed is likely to be doing with rates and its balance sheet by the BoK than other APAC central banks (most others are carving a more independent path);
2. Inflation in Korea is higher and wider than the BoK expected;
3. BoK thinks inflation is likely to remain at a 3% level for some time, weaken in 2H22 (in line with our forecasts, see chart above);
4. Lee says if market rates respond significantly, the BoK may smooth the impact (e.g. bond-buying);
5. Lee says it is hard to say if 1.5-1.75% is an appropriate level for peak policy rates (we believe this should be the peak for rates, but Lee's comments suggest upside risk to this view);
6. Lee says raising rates to 1.5% can not be considered as "tightening" and the current level of rates (1.25%) is still below the neutral rate. Basically, rates will have to be raised even more before they can consider this as "job done".

There was one opponent to today's decision, which may indicate that the coming months may see

a little more caution in the pace of rate increase. And remember, March will be Lee's last meeting as BoK Governor, as he is stepping down. But there may be no replacement immediately, as there is a Presidential election in March, and it may be some months before the incoming President appoints a new governor.

It is possible that this is one factor why rates were indeed raised today, and one argument why we may see a further hike before Governor Lee steps down in case the leadership vacuum leads to policy inactivity until the new appointment.

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