

## Bank of Korea returned to faster tightening pace with 50bp hike

Although inflation expectations and pipeline prices have eased in recent months, the Bank of Korea raised its policy rate by 50bp today, responding to faster-than-expected Fed rate hikes, sticky inflation and growing inflation risks from the weak won and rebounding global oil prices. Future guidance remained vague



**3.00** BoK 7-Day Repo Rate

As expected

**The BoK decided to raise the policy rate to 3.00% but with two dissenting votes**

The market widely expected a 50bp hike, but two dissenting votes were a surprise. This is the first

time that the policy rate decision has not been unanimous since August 2021. This clearly shows that the spectrum of dove-hawk tendencies is shifting slowly from curbing inflation to supporting growth. In addition, Governor Rhee mentioned that multiple members see the terminal rate around the 3.5% level, but that a couple of members believe it will be lower than this, so the Board's opinions on future interest rate hikes are divided. Lastly, Governor Rhee gave a vague answer to the possibility of a 50bp rate hike in November and mentioned that the board members will opt to watch the Fed before deciding what to do then.

## The BoK's rate decision outlook in November

We believe that two conditions must be met for a 50bp hike in November. The first is the Fed's rate hike decision in November. If the pace of Fed hiking is faster than the market expectation of 75bp then the BoK could consider a 50bp hike. The second is Korea's consumer inflation in October and pipeline prices. If inflation goes back up to 6% and pipeline price pressures reaccelerate (driven either by rapid won weakness or a rebound in global oil prices), then another 50bp hike is possible.

Our ING house view is that the Fed will deliver a 75bp hike in November and that Korea's October CPI inflation rate will rise to 5.9%YoY with a continued slowdown in pipeline prices. And as such, we think that the BoK will likely normalize its hiking pace back to 25bp in November.

## The BoK's rate decision outlook next year

We believe that the BoK's tightening cycle is coming close to an end. Governor Rhee repeated several times that rate hikes will be painful for highly leveraged debtors, but that action is necessary now to avoid an even bigger increase in interest rates. However, we think that tight monetary conditions will soon start hitting the real economy with further asset price adjustments and a rapid slowdown in private consumption and investment.

Although upside risks on inflation are growing, Korea's consumers are highly sensitive to interest rates, given the large exposure to variable rate loans. Thus we expect inflation to come down quite sharply from the end of next quarter. In turn, we believe that the BoK will stay on hold for a while next year before commencing its easing cycle towards the year-end.

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