

Korea: consumer prices slow to 3.3% in May

We expect headline inflation to touch the 2% range as early as June, but the Bank of Korea will likely pay more attention to stickier core inflation and keep its hawkish stance



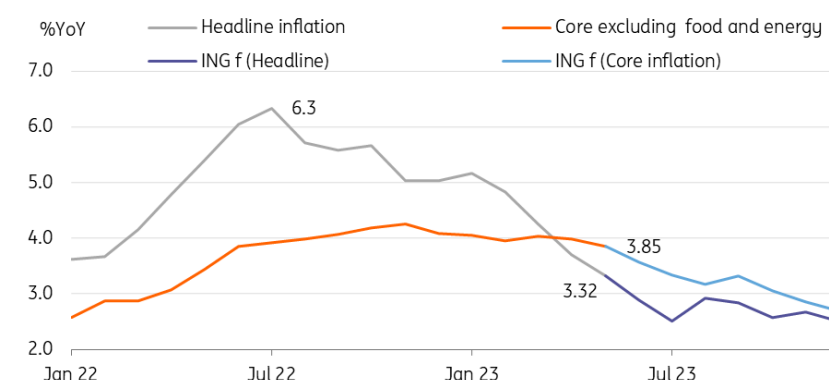
Consumer prices continued to slow in May

Consumer prices in Korea rose 3.3% last month from a year earlier, compared with a 3.7% year-on-year rise in April.

Utility prices shot up by 23.2% YoY in May, reflecting the recent hikes in power and city gas prices from the middle of May, but the decline of diesel (-24%) and gasoline (-16.5%) prices led to the slowdown in headline inflation. In a monthly comparison, prices reaccelerated by 0.3% month-on-month (vs 0.2% in April). We think some lingering effects of utility fee hikes will stay for a couple of months but strong base effects will contribute to bringing headline inflation down further. Given recent weak global commodity prices, we believe that inflation is expected to come down to the 2% level as early as June.

Meanwhile, core inflation excluding food and energy only edged down to 3.9% YoY in May from the previous month's 4.0%, showing the stickiness of core prices and staying above the headline inflation.

Inflation forecasts



Source: CEIC, ING estimates

Bank of Korea watch

We think that even if headline inflation hits the 2% range in June or July, the Bank of Korea (BoK) will likely maintain its hawkish stance by highlighting that core inflation is still at the 3% level and by projecting headline inflation will hit the 3% level by year-end.

We also think that risks are skewed to the upside because public service fees – usually decided by local governments – are set to increase over the summer and the second-round effects of such hikes could push prices back up. However, if global oil prices run below \$70 per barrel, then the deceleration trend will likely continue. We maintain our long-standing view that the BoK will stay pat throughout the third quarter.

Author

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the

Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.