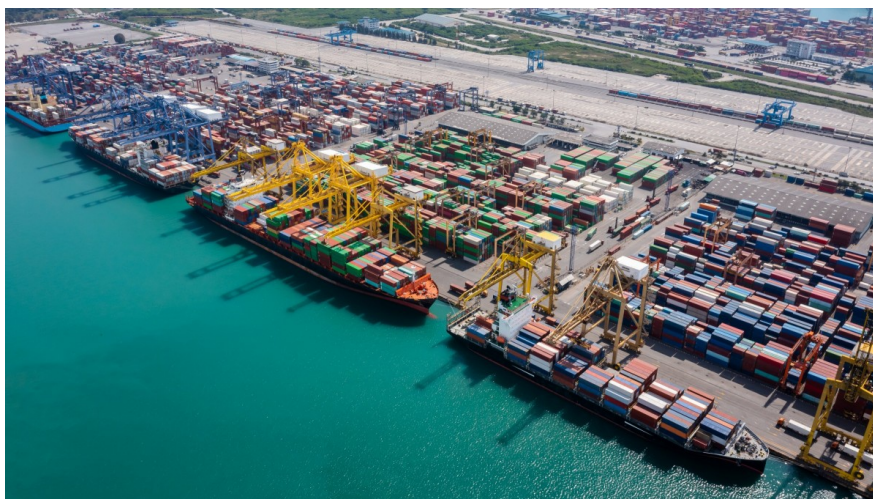


Korea: Export growth slowed more than expected in September

The trade balance in September recorded a six-month deficit while the trade deficit narrowed to -USD3.7 billion (vs -USD9.4 billion in August) as import growth decelerated at a faster pace than exports. We expect the trade deficit to continue to narrow until the year end and possibly turn into a surplus early next year



Source: shutterstock.com

2.8% Exports
%YoY

Lower than expected

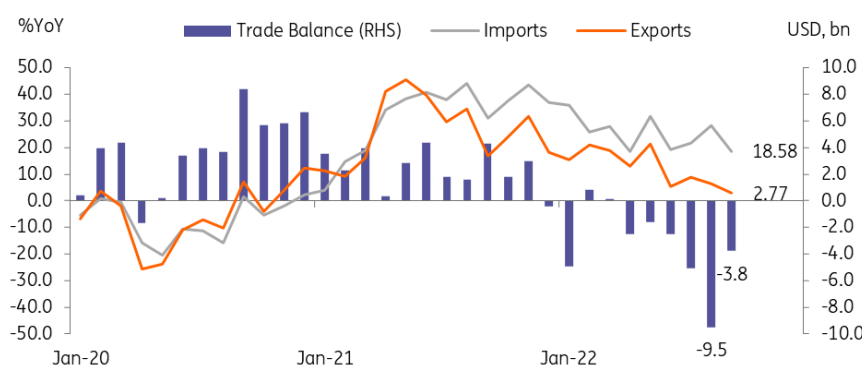
Exports rose 2.8% YoY in September, the slowest pace in about two years

Weakening global demand appears to have put pressure on Korea's exports, which recorded a 2.8% year-on-year rise in September (vs 6.6% in August), missing the market consensus of 3.3%. By product, semiconductor exports dropped by -5.7% in September (vs -7.8% in August) and

performances of other IT products such as wireless phone (-7.0%) and computers (-23.6%) were also weak. Steel products made a sudden drop of -21.1% mainly due to a typhoon-triggered shutdown, which will be normalised fully by the year end; thus the slowdown is expected to continue. Meanwhile, petroleum product exports were solid with a 52.7% gain, and automobiles (34.7%)/auto parts (8.7%) exports rose for three consecutive months. By country, exports to the US (16.0%), Japan (2.5%), and ASEAN (7.6%) were solid while exports to China (-6.5%), the EU (-0.7%), and Vietnam (-6.4%) dropped.

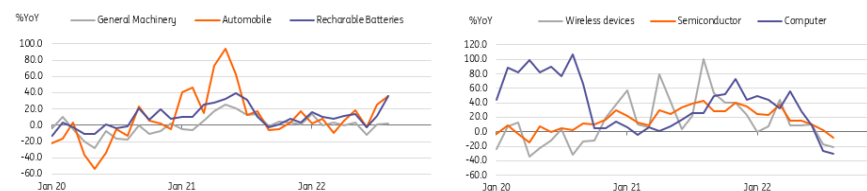
Meanwhile, imports rose 18.6% YoY in September (vs 28.2% in August), slowing down due to the drop in global commodity prices. We expect import growth to decelerate further during the winter time, mainly due to the high base last year.

Trade deficit narrowed in September



Source: CEIC

Exports Automobiles vs IT products



Source: CEIC, ING estimates

Trade outlook and the Bank of Korea policy reaction

Most of Korea's exports are intermediate goods processing trade. Therefore, if global external demand weakens, imports of raw materials and components will decrease. In addition, imports tend to weaken more quickly when domestic demand is weak, which is our base case scenario over the coming quarters, which could eventually lead to a trade surplus. We think that the current trade deficit trend will continue until early next year, but after that, as both external and internal demand weakens, the trade balance is expected to turn to a surplus again.

As the inflation is expected to stay above 5% for a few months, the Bank of Korea will likely continue to stay on the hiking path and frontload a 50bp hike at its October meeting. However, recent data releases from hard activity data to soft survey data suggest a sharp contraction of the economy in near term and real-estate markets already show a quite rapid price correction and liquidity concerns on mortgages and Jeonse (yearly rent contract) deposits. Thus,

we expect the BoK to put a break eventually early next year.

Author

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@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 www.ing.com.