

Korea: Headline inflation eased more than expected in August

Korea's headline inflation appears to have passed its peak but will likely stay above 5% for the rest of the year. The Bank of Korea will take some comfort from these latest inflation figures but will stay on a hiking path through to the year-end



5.7 CPI inflation
%YoY

Lower than expected

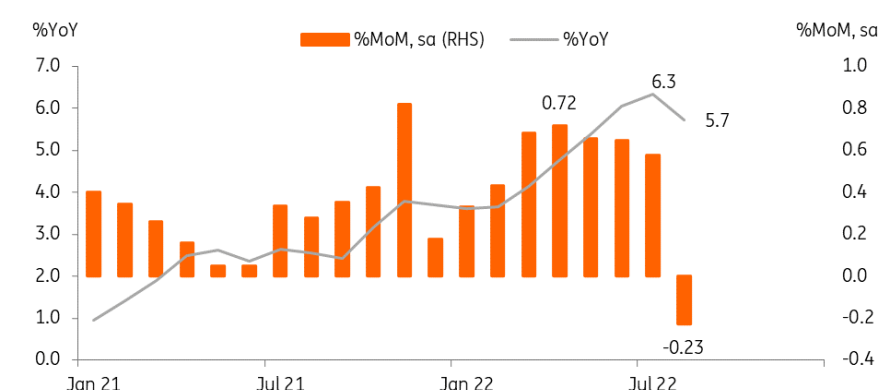
Headline inflation eased more than expected but core inflation still rose in August

Headline inflation eased to 5.7% YoY in August (vs 6.3% in July), which was lower than the market consensus of 6.1%. But core inflation (excluding food and energy) continued to accelerate to 4.0% in August (vs 3.9% in July), showing that underlying price pressures remained strong. The

unadjusted monthly growth rate declined by -0.1%, the first decline since November 2020. Extended fuel-tax cuts and a drop in gasoline prices was the main reason for the decline but fresh food and eating-out services rose firmly.

We think inflation has now passed its peak but it will likely remain above 5% for the rest of the year. Firstly, there is a high possibility that the price of fresh food will rise due to bad weather as SuperTyphoon Hinnamnor is expected to pass through the southern part of the Korean peninsula, a major agricultural area. Secondly, some staple manufactured foods, like instant noodles and bread are scheduled to rise after the Choseok holiday. Thirdly, utility fees such as city gas and electricity will rise again in October. Lastly, some local governments are also planning to increase service fees too.

Headline CPI slowed in August



Source: CEIC

The Bank of Korea is expected to raise rates 25 bp in October

The Bank of Korea (BoK) will continue to stay on a hiking path at least until the end of the year. Governor Rhee has made it clear that the BoK will continue to raise rates as long as inflation stays above 5% and growth conditions do not deteriorate meaningfully. We think these terms will remain in effect until the end of the year. However, as we get closer to the year-end, we will see clearer signs of a slowdown in growth, so the BoK could begin to give more weight to growth considerations in its policy decision. Today's weaker-than-expected inflation print supports our view that the BoK will end its hiking cycle at 3.0% in November.

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 www.ing.com.