

Snap | 2 November 2022

Korea: Inflation rose in October, but has clearly passed the peak

Headline inflation picked up again in October due mainly to increases in the price of city gas and electricity, but stayed below the recent peak. Despite upside risk factors such as the weak KRW and rebounding food prices, we expect inflation to decelerate from now on, though we still think that the Bank of Korea (BoK) will raise rates 25bp in November



Source: shutterstock.com

5.7%

CPI inflation

%YoY

As expected

Snap | 2 November 2022

Headline inflation is expected to decline from now on, but core inflation has more room to rise

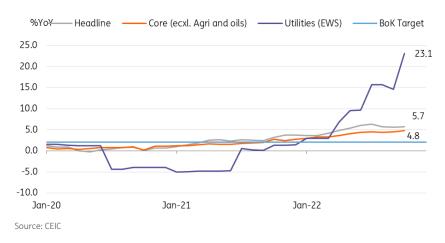
Consumer price inflation rose 5.7% YoY in October (vs 5.6% in September), in line with the market consensus. As city gas and electricity rates began to rise from October, utility prices (power, gas, and water) jumped 23.1%. This also pushed up core inflation excluding agricultural and oil products to 4.8% (vs 4.5% in September).

We believe that headline inflation will decelerate from now on. Ahead of the winter kimchi-making season in November, fresh vegetable prices, including cabagge (-31.2% MoM nsa), declined sharply (-13.1% MoM nsa) with better harvests than expected. Gasoline prices are expected to stabilize a bit more by the end of the year. Rent prices have stayed on the rise so far but market-observed rent prices began to drop from mid-year, which will soon be reflected in the CPI.

To be clear, there are still several upside risks to inflation in the near future. First, utility prices are expected to rise again next year as utility service providers respond to their operating deficits. And the recent credit crunch will also make it harder for such firms to issue additional corporate bonds in the near future. Second, global commodity prices have rebounded recently as unstable supply conditions have continued. And lastly, the weak KRW is likely to broaden inflationary pressure on other goods prices.

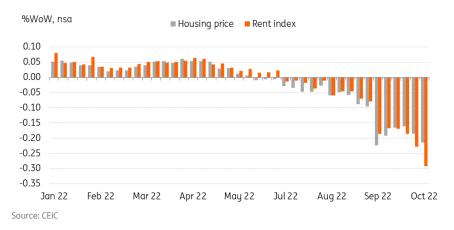
Considering both down and upside factors, we expect headline inflation will decelerate but will remain above 5% until early next year. If our current projections are right, then we will see inflation at around 4% in February next year, followed by a more rapid deceleration until the end of next year.

Inflation rose in October mainly due to higher utility prices



Snap | 2 November 2022

Market observed rental prices declined since May



The BoK outlook

The Bank of Korea will hold its last policy-rate decision meeting of the year on 24 November. And although inflation rose again in October, we think the BoK will pay more attention to the fact that inflation is down from its peak. The BoK will continue to hint at further tightening and inflation risks in its forward guidance. But, as the signs of a recession are becoming more evident - weak activity data, declining housing prices, and volatile financial market conditions - we believe that the BoK will slow the pace of additional rate hikes. Thus, we maintain our view that the BoK will return to its more usual 25bp hike pace 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

Snap | 2 November 2022

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.

Snap | 2 November 2022 4