

Korea: July inflation accelerated

Headline CPI inflation in July hit its highest rate since November 1998. But it was mostly in line with the BoK's projections, so we expect them to return to their usual 25bp pace of hiking at their August meeting.



Korean won

6.3 CPI inflation

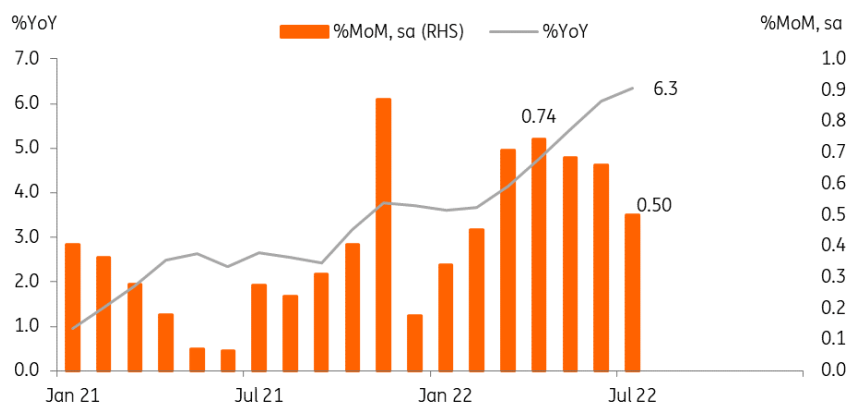
YoY%

As expected

CPI inflation rose 6.3%YoY in July (vs 6.0% in June) on the back of higher fresh food and utility prices

Fresh food and utility inflation rose to a 13.0%YoY and 15.7% pace respectively, due to bad weather and higher electricity and gas rates. As the wet season is lasting longer than usual, fresh food prices will likely rise further in the coming months. Additional rate increases for power and city gas are scheduled in October. As a result, the headline inflation rate will likely stay above 6% until October. However, we also see some signs of price pressures easing. Gasoline prices at the pump have fallen following the government's fuel tax cut and decline in global crude oil prices.

Monthly price growth continued to decelerate in July

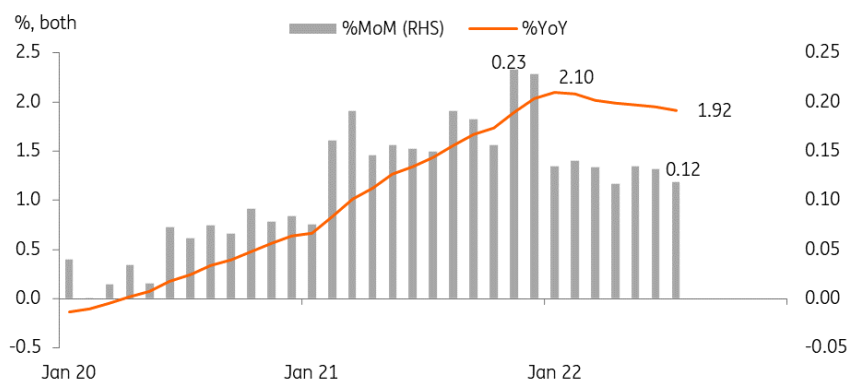


Source: CEIC

Core inflation excluding food and energy remained unchanged at 3.9% for the second month

Today's data indicate that underlying inflation pressures will likely peak out early next quarter. Among services, rental price growth slowed to 1.9%YoY from its recent peak of 2.1% in January. Typically, rentals follow the path of house prices after a few months, so we expect rental prices to decelerate further as we head towards the year-end. In addition, as housing and rental prices are the key determinants of inflation expectations, we also believe that inflation expectations will begin slowing in the near future.

We expect rents to decelerate further in the coming months



Source: CEIC

We maintain our BoK call to raise rates 25bp in August

We think that the July inflation release was broadly in line with the BoK's projections. Forward-looking data signals a rapid deterioration in consumption and service sector activity, so the BoK likely be more cautious in the future. Based on today's data, we expect the BoK to raise rates by 25bp at its August meeting and we maintain our full-year 2022 inflation forecast of 5.3%YoY.

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