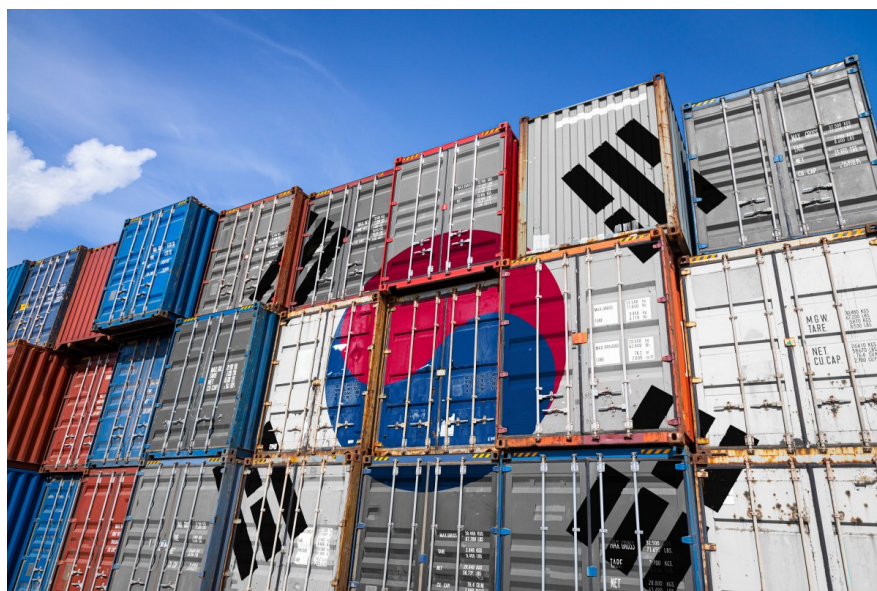


## Korea: exports contracted for the second straight month in November

Due to a weaker-than-expected export outcome in November, the downside risks to GDP this quarter have increased. The Bank of Korea (BoK) is likely to slow down its hiking pace next year due to the sharp deterioration of real activity data



**-14.0** Exports  
% YoY

Lower than expected

### Trade deficit widened again due to soft exports in November

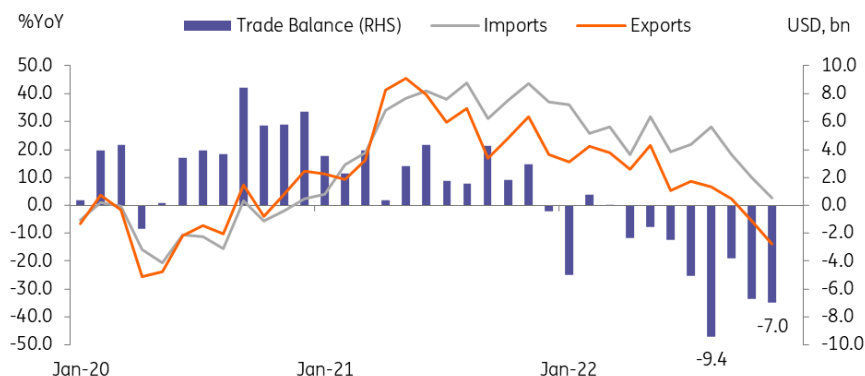
Exports fell for a second consecutive month (-14.0% YoY in November vs -5.7% in October), and were weaker than the market consensus of -11.2%. By export items, automobiles (31.0%), petroleum (26.0%), and batteries (0.5%) grew, while semiconductors (-29.8%), and petrochemicals (-26.5%) dropped sharply. By destination, exports to the US (8.0%), the Middle East (4.5%), and the

EU (0.1%) continued to increase. Yet, inter-regional exports continued to decline, with exports to China (-25.5%) and ASEAN (-13.9%) down.

We believe that catch-up demand in the auto sector will persist for a while with lifting supply constraints. However, the outlook for IT investment and consumption is cloudy. We interpret the sluggish exports to China and ASEAN as being more strongly related to global IT demand rather than necessarily to regional demand. China's lockdown itself should work against Korea's exports, but what's more worrisome is that the final demand for IT seems to be falling very quickly.

Meanwhile, imports rose 2.7% YoY in November (vs 9.9% in October) with continued increases in commodities (27.1%). As a result, the trade deficit widened to -USD7.0bn in November (vs -USD6.7bn in October).

## Exports contracted for a second straight month in November

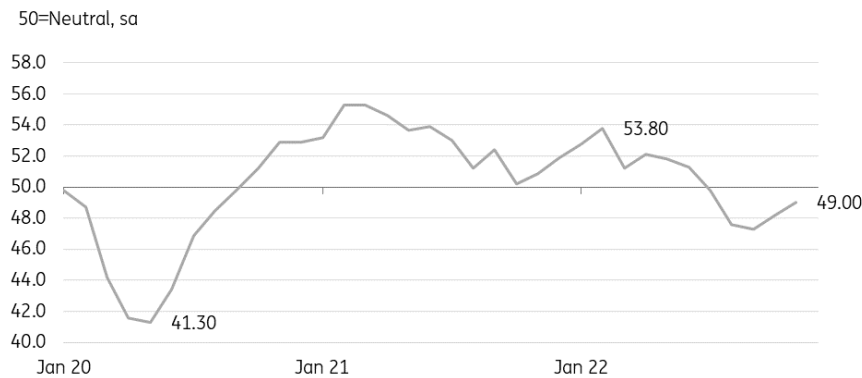


Source: CEIC

## November manufacturing PMI rebounded but remains below the neutral level

November's manufacturing PMI improved to 49.0 (vs 48.2 in October), but stayed in the contraction zone for a fifth consecutive month. Sluggish semiconductor performance appears to be driving weak output and orders, which means that semiconductor activity is likely to remain sluggish in the near future.

## Manufacturing PMI suggests soft manufacturing activity ahead

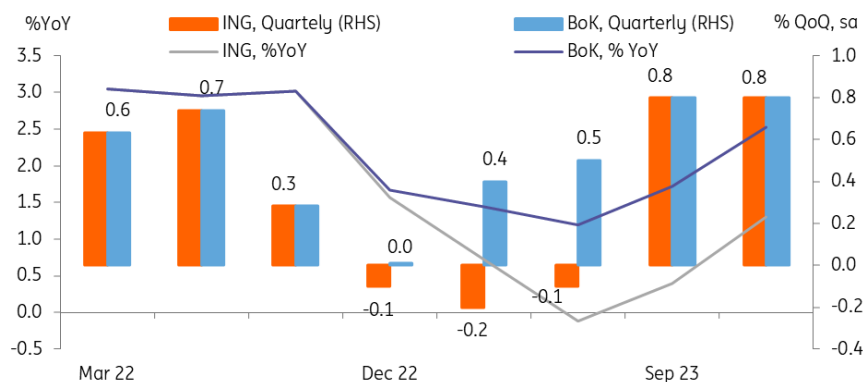


Source: CEIC

## GDP outlook

The Bank of Korea released its revised report on 3Q GDP this morning as well. Headline growth of 0.3%QoQ was unchanged from the advance estimate, but the details have changed slightly. By expenditure, private consumption (1.7% vs 1.9% advance) and construction (-0.2% vs 0.4% advance) were lowered, while facility investment was revised up to 7.9% (vs 5.0% advance) as machinery and transportation investment increased. 3Q GDP growth was mainly led by domestic demand components, but consumption and facility investment are likely to weaken due to interest rate hikes. Construction, which already contracted last quarter, is struggling with the ongoing tight financial conditions and sluggish real estate market. Meanwhile, China's weak PMI (48.0 official manufacturing) and strict corona policy mean that Korea's exports will face strong headwinds in the coming months. Making things worse, the nationwide truckers' strike is adding an additional burden on the economy. Considering the sluggish October IP outcomes yesterday and dismal exports this morning, the downside risk for the current quarter's GDP forecast (-0.1% QoQ) has substantially increased.

## GDP outlook is likely to be revised down



Source: Bank of Korea, ING

Bank of Korea releases bi-annual %YoY growth forecasts. ING estimated the quarterly growth figures based on the bi-annual forecasts.

## The Bank of Korea will slow down its hiking pace next year

Consumer price index (CPI) inflation data for November will be released tomorrow. We expect inflation to decelerate to 5.1% YoY (vs 5.7% in October) mainly due to falling gasoline and fresh food prices. Although base effects will also work to calm inflation in the coming months, we see additional signs of inflation slowing further.

The recently released data signals a sharp deterioration in the economy in the current and subsequent quarters. We, therefore, expect the BoK to deliver its last hike this cycle in February. Beyond the first quarter, the BoK will likely adopt a wait-and-see stance, together with hawkish comments. But if we are right about contracting growth and inflation falling to around 3% in 1H23, then the BoK will likely consider easing policies in 2H23.

## Financial market updates

Korea's equity market and the Korean won are rallying on the back of relatively dovish remarks from Jerome Powell last night. The KRW recorded its best performance in the region for a month. We think that the KRW will likely strengthen further by the year-end, but we still have to be cautious in the next quarter. We expect further widening of the yield gap between the US and Korea and uncertainties in China to extend into the next quarter, which together with a weak trade performance, could adversely affect the won.

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