

Recovery in Korean exports in March, but outlook remains cloudy

Korean exports recovered in March, driven largely by a surge in shipments ahead of 'Liberation Day'. Meanwhile, the Constitutional Court's decision on the impeachment of President Yoon Suk Yeol will be announced on 4 April, which will overwhelm market sentiment regarding US tariffs in the very near term



The Port of Busan, the largest port in South Korea

3.1% YoY Exports
(Imports 2.3% YoY)

Lower than expected

Exports accelerated in March ahead of 'Liberation Day', yet the outlook remains cloudy

Exports rose by 3.1% YoY in March (vs 0.7% in February, 5.0% market consensus). Working day

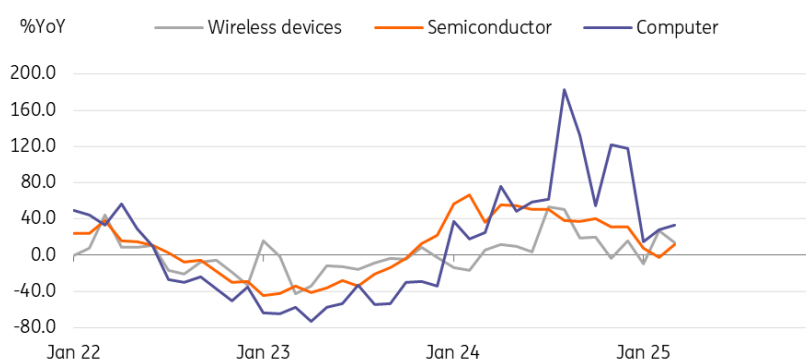
adjusted, average daily exports also gained 5.5%.

Seven out of 15 major export items grew. The most notable gains came from strong IT exports with mobile devices (13.8%), semiconductors (11.9%), and computers (33.11%) growing. Transportation equipment exports were also solid. Vessel exports rebounded solidly by 49.3%, while car exports extended their gain for a second month, but at a slower pace, rising by 1.2% in March (vs 17.7% in February). E-vehicle exports dropped significantly, yet hybrid-vehicle and combustion engine vehicle exports showed solid growth.

We expect IT and vessels to remain the main drivers of export growth. We expect the 25% tariff on cars to dent car exports going forward as we see a sharp decline in steel (-10.7%) in March, probably due to the imposed tariffs. Meanwhile, general machinery and petroleum exports have dropped for eight consecutive months mostly due to sluggish demand and declining commodity prices.

By export destination, exports to China dropped 4.1%, mostly due to the decline of semiconductors. Exports to ASEAN grew a solid 9.1% for the second month, with strong IT exports. We believe that this is a sign of rerouting of interregional exports. Exports to the EU also rose 9.8%, mostly due to a sharp rise in vessel exports. Exports to the US rose 2.3%. We believe that the US tariff impact will be more clearly reflected in the April readings.

Exports rose in March thanks to strong IT exports



Source: CEIC

Capital goods imports increased despite rising uncertainty on AI investment and US tariffs

Meanwhile, imports rose by 2.3% YoY in March, mostly in line with the market consensus of 2.2%. Energy imports declined by 7.3%, while non-energy imports, including semiconductor equipment (86.2%), rose 4.8%.

We have maintained that the technological advantage of South Korean chip makers will be a key factor driving export growth. Despite increasing uncertainty around AI investments, Korean chip makers seem to have ramped up their spending on equipment investment.

Business confidence dampened in March and impeachment decision will swing market sentiment

Today's weak PMI reading was somewhat expected given the sharp decline in local business survey results last week. The manufacturing PMI fell sharply to 49.1 from 49.9, with output and new orders falling.

We believe that sentiment has been hit not only by the growing threats from US trade policy, but also by ongoing domestic political uncertainty. Today, the Constitutional Court announced that the decision on the impeachment of President Yoon Suk Yeol will be taken on 4 April. So, the market will at least get rid of the major uncertainty surrounding the domestic political situation by the end of this week. Following this news, USDKRW moved down to 1468 from 1477, and KOSPI also gained around 2%.

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