

Bank of Korea preview: A patchy recovery ahead

While consumer sentiment has deteriorated sharply, early export data rose firmly thanks to robust global demand for semiconductors. The Bank of Korea is likely to extend its hawkish pause on Thursday amid concerns about sticky inflation



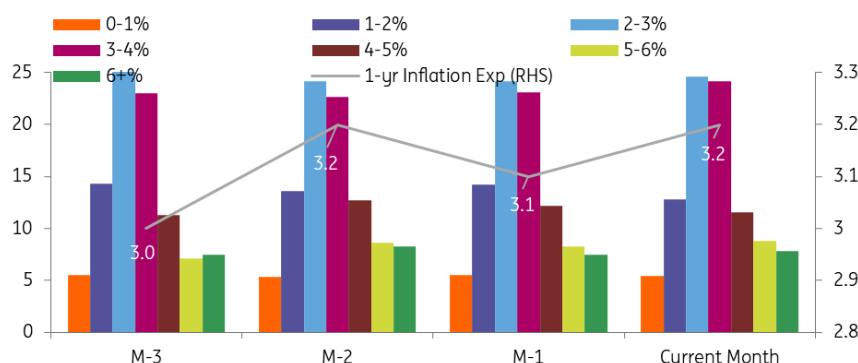
98.4 Composite consumer sentiment index
vs 100.7 in April

Consumer sentiment weakened while inflation expectations rose again in May

The consumer confidence index fell sharply to 98.4 in May (from 100.7 in April), below the neutral level for the first time in five months and the largest monthly decline since 2023 September. All sub-components declined, but the outlook indices – household income, living standard, and spending plan – fell more sharply, signalling weakness in consumer activity in the near future.

What is more worrying when it comes to the Bank of Korea's policy decision is that inflation expectations rose to 3.2% in May from 3.1% in April.

Inflation expectations hover above 3% for four months in a row



Source: CEIC

1.5%

First 20 days Exports in May (% YoY)

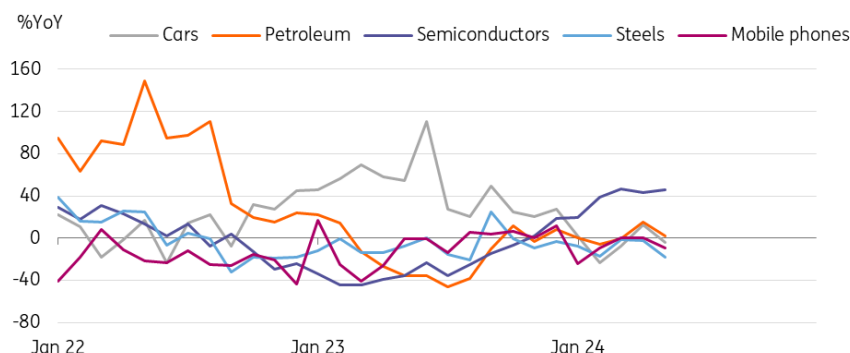
vs 11.1% in April

Semiconductors led overall export growth despite unfavourable calendar effects

Early May trade data showed continued solid external demand for semiconductors. Exports for the first 20 days of May were only up 1.5% year-on-year (11.1% in April) but the headline was distorted by unfavourable calendar effects. With two fewer working days, the average daily exports rose 17.7%. Among the main export items, chip exports were up 45.5% and vessel exports were up 155.8%. Yet, auto parts (-17.3%) and cars (-4.2%) fell, indicating a moderation in auto exports throughout this year.

By destination, exports to China (1.3%), the US (6.3%), Taiwan (48.5%), and Vietnam (10.5%) rose. Meanwhile, imports fell 9.8% YoY over the same period. Most import items declined, except for semiconductors, which rose 7%. We believe that global semiconductor industry is still on the recovery track. But, declines in commodity and machinery imports suggest a cloudy outlook for domestic growth.

Strong exports are mainly driven by semiconductors



Source: CEIC

BoK preview

Today's data outcomes confirm our view of a patchy recovery path. Inflation expectations are anchored above 3% and consumer activity is expected to weaken, but exports are likely to lead overall growth. The BoK will likely remain hawkish in the coming months, but should shift its policy stance towards easing if domestic growth continues to deteriorate and starts to weigh on overall growth. We expect the BoK to cut in the fourth quarter of this year, in October.

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