

## South Korea inflation stabilises faster than expected

Last month's downside surprises in South Korea mainly came from food and gasoline prices. Inflation will likely return to the 2% range by early next year when the Bank of Korea's concerns about inflation will likely drift away and the market begins to price in rate cuts



# 3.3% YoY

## Consumer inflation

(vs 3.8% in October, 3.5% market consensus)

Lower than expected

### Fresh food and energy prices fell more than expected in November

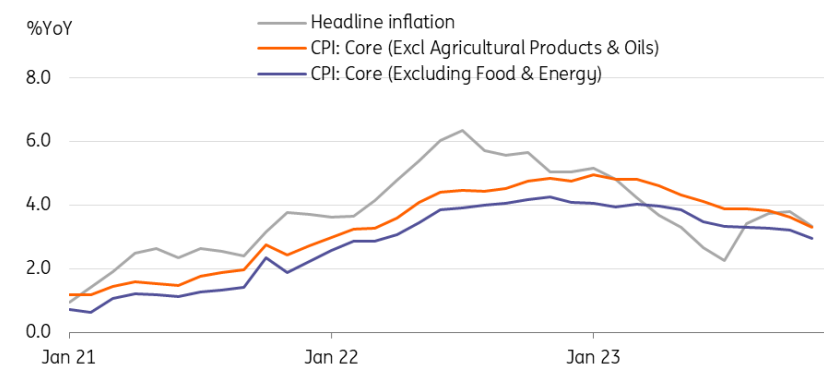
Consumer prices decelerated to 3.3% year-on-year in November (vs 3.8% in October, 3.5% market consensus) mainly due to price declines in fresh food and energy. Excluding food and energy, core inflation also moved down to 3.0% YoY (vs 3.2% in October, 3.1% market consensus).

In a monthly comparison, consumer prices dropped -0.6% month-on-month nsa in November. Utilities and services prices remained unchanged compared to October, while fresh food (-4.9%) and industrial goods (-0.3%) prices declined sharply.

We believe that the government's price stabilisation policy contributed significantly to November's price drop. Fresh vegetable prices (-10.3%) fell thanks to the supply of the government's stockpile and shopping vouchers. Petroleum prices (-3.5%) also dropped significantly due to falling global oil prices and the government's extended fuel tax cut programme. We expect headline inflation to come down to the 2% range early next year.

That said, we still see some upside risks for inflation next year, especially once various government programs come to an end in the coming months. If global oil prices stabilise further, the fuel tax cut will likely end next year. Accumulated price pressures on utilities will also become a reality. This dynamic could delay the Bank of Korea's rate cuts next year.

## Inflation stabilised in November due to sharp drop in fresh food and energy prices



Source: CEIC

## Bank of Korea

We think that the market is soon likely to begin pricing in rate cuts next year despite the BoK's hawkish stance. We pencilled in a rate cut in the second quarter of 2024, as tight monetary policy curbs the demand side of inflation as well as growth.

Another key risk factor for our BoK call is housing debt. We believe that the pace of household debt growth should slow in the coming months as the government's facility loan programme ended last month and market sentiment on property prices turned weak. In terms of growth, exports will likely be the key driver, but poor consumption and construction investment will weigh on the overall picture. As a result, BoK will likely ease its policy tightness. However, if household debt growth accelerates faster than expected, the central bank's easing process will likely be delayed until the third quarter.

## Author

### Min Joo Kang

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto: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 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>.