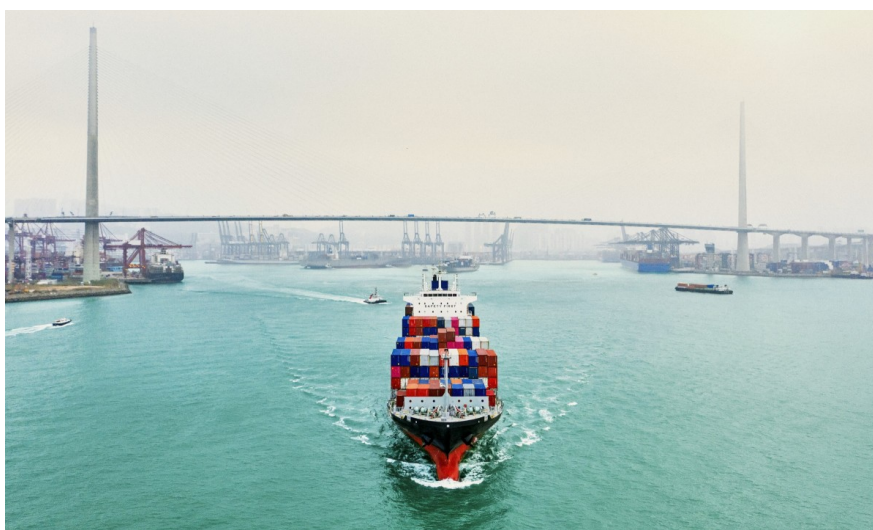


South Korea: trade deficit hit record in January

Exports fell for a fourth straight month in January due to weak global demand for semiconductors and petrochemicals, with little hope for a meaningful improvement in Korea's trade performance in the first half of this year. Today's data supports our view that 1Q23 GDP will deliver a second consecutive quarter of contraction



Conditions for international trade remain very tough

-16.6% Exports
% YoY

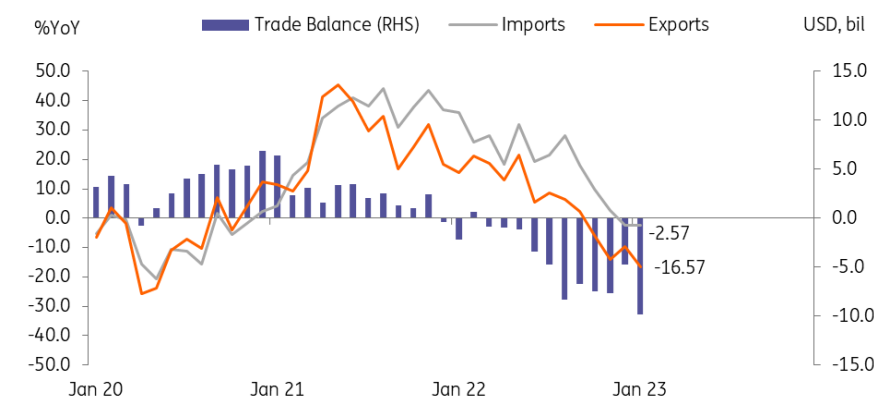
Lower than expected

Exports fell 16.6% YoY in January

Looking at the details of the export data just released, weak performances were even more broadly based and semiconductor exports deteriorated even further compared with the previous month. Among major export items, displays (-36%), steel (-25.9%), and petrochemicals (-25.0%) all declined while semiconductor exports fell the most (-44.5% vs -27.8% in December).

On the other hand, vessels (86.3%), automobiles (21.9%) and batteries (9.9%) all rose in January. We believe that automobiles and E-vehicle-related exports continue to outperform, but the momentum will slow in the coming months as the US and Europe's demand will soften. By export destination, exports to China dropped the most, falling 31.4%YoY, while exports to the ASEAN region (-19.8%) and the US (-6.1%) also slid.

Trade deficit hit record high in January



Source: CEIC

The semiconductor downcycle will last at least another six months

According to various industry reports, several major memory chipmakers including Hynix have cut their capex spending compared to last year and will focus on inventory management. But market leader, Samsung Electronics, announced that it will maintain its capital expenditure at the same pace as last year. This means that the large imbalance between supply and demand is unlikely to be corrected anytime soon and sector-wide inventory levels will continue to rise, resulting in further declines in unit memory chip prices. Memory prices have fallen more than 50% since their 2022 peak, and further unfavourable price effects look likely to weigh on Korean exports for a while longer. The market will eventually improve on the back of China's reopening and a recovery in mobile phone demand, but Korean chipmakers will face another geopolitical challenge from tightening US sanctions against tech exports to China. Thus, we expect the positive spill-over from the reopening of China to the Korean economy to be limited.

Growth outlook and BoK Watch

Sluggish exports were one of the main reasons for the GDP contraction last quarter and we expect this to continue for several more months. Yesterday's industrial production data also suggest that domestic demand growth will remain sluggish in the current quarter. The manufacturing PMI edged up to 48.5 in January from 48.2 in December, but still remained below the neutral level. Thus we maintain our view that 1Q23 GDP will contract by 0.2% QoQ (seasonally adjusted rate). As external and domestic growth conditions worsen and utility prices rise, the main opposition party has urged the government to draw up a supplementary budget. However, we believe that the likelihood of this is still low at the moment. The government will expand energy subsidy programs for low-income households and ask local governments to refrain from raising public utility charges as much as possible. Meanwhile, the Bank of Korea will pause its tightening policy

from February although it will maintain its hawkish stance for the time being.

Author

Min Joo Kang

Senior Economist, South Korea and Japan

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 www.ing.com.