

New Bank of Korea governor may deliver rate hikes sooner than anticipated

Shin Hyun-song's nomination as Bank of Korea governor is likely to increase expectations that the central bank will deliver preemptive rate hikes. Trade data for early March, meanwhile, showed that chip exports remain strong despite the heightened Middle East risks



Source: Shutterstock

Our initial assessment of his policy stance is leaning hawkish

On Sunday, the government announced Shin Hyun-Song as its nominee for the governor of the Bank of Korea. Shin, currently serving as an economic advisor at the Bank for International Settlements, has experience in both academia and policy making. Though his views will come into closer view at the parliamentary confirmation hearing, Shin's past remarks, coupled with Korea's macroeconomic conditions, suggest he will take a relatively hawkish policy stance.

Previously, he's stressed the need for preemptive and firm action to prevent inflation, excessive lending, and financial imbalances. Shin has characterised household debt as a consequence of excessive liquidity and as a potential threat to the economy's underlying fundamentals.

Although government initiatives help stabilise inflation in the short term, pressures continue to

build. The depreciation of the won amid increasing oil prices is likely to intensify inflationary pressures. Additionally, persistently high household debt levels are among the factors suggesting the new governor may implement interest rate hikes earlier than markets anticipated.

We expect a July hike as base case but sooner is possible depending on Middle East situation

Government initiatives are helping stabilise inflation in the short term, giving the BoK some time. However, upside risks are growing as the war persists. The depreciation of the won amid increasing oil prices is likely to intensify inflation risks.

Thus, we expect Shin to be inclined to implement pre-emptive measures, most likely in July. With the possibility still low for now, we believe a May hike is not completely off the table if the Middle East situation worsens. We will monitor BoK's forward guidance at April's meeting and compare it with February to see how the board's view has changed.

If approved by parliament, he will lead the first BoK policy meeting on May 28. Current BoK Governor Rhee Chang-yong's four-year term runs through April 20. It's also important to see who will replace board member Shin Sung Whan upon his retirement in May. Given Shin Sung Whan's dovish stance, the dove-hawk spectrum of the board shifts with this change.

March trade data indicates strong chip driving Korean exports

Korean exports surged 50.4% year-on-year in the first 20 days of March, with daily averages up 40.4% after adjusting for working days. Chip exports jumped 163.9%, while auto and oil exports rose by 11% and 49%, respectively. Imports rose 19.7%, suggesting higher raw material prices. Thanks to strong chip exports, we expect the trade surplus to persist. It may be slightly reduced in the coming months due to rising global commodity prices. We expect export-driven growth to continue unless the war persists for longer than expected. We believe production interruptions have been limited so far, but price pressures on companies have risen materially recently. As downside risks to economic growth increase and inflation risks rise, the BoK will face an even greater challenge in balancing growth and inflation.

KRW is likely to stay above 1,500 in near term

In our recent [FX talking report](#), we projected that the USDKRW would trade within a broad range of 1,450 to 1,550. If the new governor implements rate hikes more quickly, it could prevent the USDKRW from exceeding 1,525. However, short-term movements in USDKRW are likely to be influenced mainly by global risk appetite. We expect smoothing operations by the FX authorities, yet they're unlikely to alter the KRW's direction in the near future.

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