

Apr
2017**Deutsche Bank South Korea Newsletter****Brief update on the Korean economy and the financial sectors****Economic
/Political
Update**

North Korean risk aggravates uncertainties for the economy despite better data: The South Korean authorities are "carefully" watching the economic conditions despite improving data as escalating geopolitical risks following another missile provocation from North Korea aggravate uncertainties, said Yoo Il-ho, deputy prime minister for economy.

"We can hardly afford to loosen watch due to the North Korea risk on top of overseas uncertainties from trade barriers and interest rate increases in the United States," Yoo told reporters after heading an economy-related cabinet meeting on Wednesday.

North Korea around 6.42 a.m. Wednesday fired a ballistic missile - its fourth launch so far this year - off its eastern coast that flew about 60 kilometres (37 miles) before plunging into the East Sea. Pyongyang is said to be in the final stage of carrying out sixth nuclear test.

Yoo said the government will judge whether it needs to create a supplementary budget after studying the economic conditions and data. The decision on additional fiscal spending, however, would be up to the next administration following the May 9 presidential election.

From data alone, the economy is recovering mostly on a boon in memory chips and refined oil products from rebound in international prices. Current-account surplus jumped 59 percent on exports growth of 23 percent in February. Inflation accelerated by 2.2 percent in March due to spike in petroleum-related prices.

"Conditions improved for recovery in business sentiment due to five-month growth in exports, but they are too fragile because of lingering uncertainties," he said.

Yoo said the spike in February current-account surplus won't likely influence much in the U.S. Treasury Department's upcoming foreign exchange report on major trading partners. He claimed the conditions have not changed greatly to make Korea go on the list of currency manipulating states. The won has appreciated sharply against the U.S. dollar over the last two months. The dollar that was at 1,204.5 won on Jan. 9 slipped to 1,108.5 won on March 27. The dollar was up 1.30 won at 1,125.80 as of 1:45 p.m. Wednesday Seoul trading upon news of another missile launch from North Korea.

Yoo reiterated what financial authorities have been saying, warning that the government and state creditors would choose the option of placing Daewoo Shipbuilding & Marine Engineering Co. (DSME) under prearranged court restructuring if the shipbuilder cannot persuade private lenders to agree to the new government-led debt relief program. (Maeil, 5 April 2017)

Sustainability in exports recovery doubtful on protectionist concerns (Bank of Korea Governor): Korea must reinforce grounds for job and income growth to bolster the domestic demand as sustainability in recovery led by exports remains doubtful due to uncertainties on the trade front, said Bank of Korea Governor Lee Ju-yeol.

"Sentiment is improving thanks to pickup in exports, but we cannot be optimistic about the sustainability in export conditions due to signs of trade protectionism in key markets," he said in a

6 April 2017

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Abbreviation index: BOK=Bank of Korea, CPI=consumer price index, DB=Deutsche Bank, FCY=Foreign currency, FDI=foreign direct investment, FSC=Financial Supervisory Commission, FSS=Financial Supervisory Service, FTA=Free Trade Agreement, FX=Foreign exchange, GDP=gross domestic product, GM Re= Deutsche Bank Global Markets Research, GNI=gross national income, IMF=International Monetary Fund, KAMCO=Korea Asset Management Corporation, KCCI=Korea Chamber of Commerce & Industry, KDI= Korea Development Institute, KOSPI=Korea Composite Stock Price Index, KOTRA=Korea Trade-Investment Promotion Agency, KRW=Korean Won, KRX=Korea Exchange, KS=Korea Statistics (former National Statistics Office), KT=Korea Times, KTB=Korean Treasury Bonds, MAEIL=Maeil Business Newspaper & mk.co.kr, MLTM=Ministry of Land, Transport & Maritime Affairs, MOCIE=Ministry of Commerce, Industry & Energy, MOCT=Ministry of Transport & Construction, MOKE=Ministry of Knowledge Economy, MOL=Ministry of Labor, mom=month-on-month, MOSF=Ministry of Strategy & Finance, nsa=not seasonally adjusted, NPL=Non-performing loan, NTS=National Tax Service, OECD=Organization for Economic Cooperation & Development, PPI=producer price index qoq=quarter-on-quarter, sa=seasonally adjusted, saar=seasonally adjusted annual rate, SERI=Samsung Economic Research Institute, SME=small-/ medium-sized enterprises, yoy=year-on-year, ytd=year to date.

seminar of economic experts.

"Policy attention should go to aiding sluggish consumption. That cannot be resolved unless income source strengthens from job security," he said.

The service sector can generate jobs twice more than the manufacturing sector. He called upon the government to lift various regulations hampering expansion and advance in the service sector. (Maeil, 5 April 2017)

Korea's online shopping jump 23% on year hit a record high in Feb: South Korea's online shopping hit a record high and accounts for nearly 20 percent of the country's total retail purchases in February, government data showed.

According to data released by Statistics Korea, online transactions recorded 5.86 trillion won (\$5.21 billion) in February, up 22.9 percent from a year earlier, whereas total retail purchases gained a mere 2.9 percent to 30.1 trillion won.

Online share reached all-time high of 19.4% against retail sales.

Online shopping that took up 7.8 percent in retail sales seven years ago rapidly expanded upon easier online pay through smartphones. Mobile transactions accounted for 58 percent of online purchases, growing 37.8 percent on year to 3.4 trillion won worth.

Online purchase of cosmetics jumped 47.2 percent on year, and clothes and accessories 46.7 percent.

Travel and lodging bookings took up the largest 16.5 percent of total online transactions, followed by household and automobile goods (10.6 percent), home appliances, electronics and communication device (10.4 percent) and food and beverages (10.4 percent).

Cosmetics (71 percent), children's and baby products (70.9 percent), food and beverages (70 percent) and shoes (69 percent) were favoured on mobile device. (Maeil, 5 April 2017)

Financial/ Industrial Sector

Lotte vows to keep investing in China despite THAAD-caused difficulties: Lotte Group announced its intention to keep investing in businesses in China despite difficulties arising from Korea's deployment of Terminal High Altitude Area Defense (THAAD) system against the wishes of the Chinese government.

Hwang Gak-gyu, Lotte Group president in charge of management innovation, said in a press meeting on April 3, "Lotte launched business in Korea first in 1967. We achieved 1-trillion-won annual sales here in 1984, meaning it took 17 years for us to solidify our presence in Korea."

He added, "We entered the Chinese market first in 1996. We are still in the stage of investment there." Hwang stressed, "We will continue our investment in China and strengthen our presence there."

He admitted that the current situation faced by Lotte in China is difficult. He said, "We are not sure what intention the Chinese government has in making safety inspections on our stores and giving suspension orders for not complying with rules. We have no option but to wait and see."

He hinted that the listing of Hotel Lotte would be possible once the group's difficulties in China are eased. (Hankyung, 4 April 2017)

Hyundai Heavy Group to boost design and R&D staff up to 10,000 within 5 years: Hyundai Heavy Industries Group decided to invest 3.5 trillion won in R&D over the next five years until 2021. This figure is about three times higher than the R&D spending it made over the past five years from 2012 to 2016 (1.2 trillion won).

Hyundai Heavy Industries also intends to increase the number of its design and R&D staff from current 4,000 up to 10,000 by 2021. The group unveiled the aggressive R&D plan despite the prolonged slump of the global shipbuilding market.

On April 3, it presented a technology and quality-centered management strategy with focus on such an ambitious R&D plan.

The group was reborn as four independent units on April 1. Hyundai Heavy held a general shareholders meeting on February 27 where it passed an agenda of spinning itself off into four separate units, including Hyundai Heavy Industries (shipbuilding and offshore engineering), Hyundai Electric & Energy System (electronic-electric systems), Hyundai Construction Equipment (construction equipment), and Hyundai Robotics (robots). (Hankyung, 7 March 2017)

28 February 2017 KOSPI 2,091.64p, KOSDAQ 612.20p

31 March 2017 KOSPI 2,160.23p, KOSDAQ 619.28p

FX Rates	(Source: Reuters)	KRW/USD	KRW/100JPY	KRW/EUR	KRW/GBP
	- As of 28 Feb 2017	1136.40	1007.35	1201.73	1406.85
	- As of 31 Mar 2017	1116.70	1002.29	1189.34	1401.73
Interest Rates					
	Certificate of Deposit (CD) yield (91d)	1.49% p.a. (28 Feb 17)		1.45% p.a. (31 Mar 17)	
	Treasury Bond yield (5y)	1.86% p.a. (28 Feb 17)		1.85% p.a. (31 Mar 17)	
	Corp Bond yield ("AA-" rated, 3y)	2.26% p.a. (28 Feb 17)		2.18% p.a. (31 Mar 17)	

House View 17 Mar 2017

Potential shifts to the policy landscape remain in focus for markets, where uncertainty still reigns on most fronts. Polls for the French Presidential Election have tightened. A Le Pen victory remains unlikely but cannot be ruled out. Politics will continue to be at the fore elsewhere in Europe, with the Dutch election, the UK triggering Art. 50, turmoil in Italy and ongoing negotiations with Greece. Prospects for the key pillars of Trump's economic agenda also remain uncertain. Markets have better clarity on other fronts: a chorus of more hawkish Fed rhetoric jolted expectations for a March hike.

Counterbalancing this uncertainty is a broad-based uptick in global growth momentum, which has supported market sentiment. In the US, surveys point to robust growth, and consumer and business sentiment are showing signs of animal spirits, though hard data have been somewhat weaker. Europe has been an upside surprise, with supportive data tilting the balance of risks in a more positive direction. The growth story is also cautiously more positive in China and EM more broadly.

Improved growth and inflation prospects are allowing developed market central banks to sketch their exits from extreme accommodation at varying speeds. The Fed should raise rates three times this year. The ECB, meanwhile, is slowly shifting toward a less dovish stance, with an announcement of a tapering of QE towards zero likely by year-end. No further easing is expected from the Bank of Japan and the Bank of England.

The push and pull between solid growth momentum and political risks looks set to continue

in the near-term. On net, this should support risk assets, especially in the US, though there are some cautionary signals in Europe. Developed market bond yields should continue to climb higher, and the dollar is set to strengthen further.

(Please feel free to contact your DB representatives for the full version of the "The House View" or other periodical reviews.)

Economic & Financial Indicators

Sources:
Asia Economics
Monthly

As of
**10 Mar
2017**

-Please note that these figures may not match with those mentioned before due to different sources.-

		2015	2016F	2017F	2018F
Nominal GDP	USD bn	1379	1399	1418	1430
GDP per Capita	USD	27,236	27,533	27,829	27,958
Real GDP Growth	% yoy	2.6	2.7	2.4	2.5
Priv. consumption	% yoy	2.1	2.4	1.8	2.0
Gov't consumption	% yoy	3.6	3.9	3.3	4.0
Inflation	% yoy ann avg	0.7	1.0	1.9	2.2
Merchandise Exports	USD bn	542.9	511.8	543.1	579.6
Merchandise imports	USD bn	420.6	391.3	432.3	475.5
Trade Balance	USD bn	122.3	120.4	110.8	104.1
Current Account	USD bn	105.9	98.7	87.4	78.6
Gov't debt	% of GDP	38.2	39.4	40.3	41.8
>Domestic	% of GDP	37.8	38.9	39.9	41.4
>External	% of GDP	0.5	0.4	0.4	0.4
Total external debt	% of GDP	28.7	26.8	25.9	25.4
FX reserves	USD bn	368.0	371.1	368.0	371.4
Unemployment	%	3.6	3.7	3.9	3.9
FDI (net)	USD bn	-19.7	-16.4	-17.0	-17.0
FX Rate (eop)	KRW/USD	1172	1209	1220	1215

Financial market	Current	2Q 17	3Q 17	4Q 17
BoK base rate	1.25	1.25	1.25	1.25
91-day CD	1.49	1.45	1.48	1.50
10-year yield (%)	2.25	2.50	2.70	2.90
KRW/USD	1157	1170	1200	1220

Moody's: Aa3

S&P:A+

Fitch: AA-

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