

Jan  
2017**Deutsche Bank South Korea Newsletter****Brief update on the Korean economy and the financial sectors****Economic  
/Political  
Update****Foreign investment hits record in 2017: South Korea's inbound foreign investment hit a record high of nearly U\$ 23 billion...**[http://www.koreatimes.co.kr/www/biz/2018/01/488\\_241866.html](http://www.koreatimes.co.kr/www/biz/2018/01/488_241866.html)  
(Korea Times, 3 Jan 2018)**Budget spending to grow 5.8% over next 5 years:**[http://www.koreatimes.co.kr/www/biz/2018/01/367\\_241825.html](http://www.koreatimes.co.kr/www/biz/2018/01/367_241825.html)  
(Korea Times, 2 Jan 2018)**Kim Jong-un may send athletes to PyeongChang Olympics:**<http://koreajoongangdaily.joins.com/news/article/Article.aspx?aid=3042730>  
(Korea Joongang Daily, 1 Jan 2018)**Exports hit record in 2017 of U\$573.9 billion:**<http://koreajoongangdaily.joins.com/news/article/Article.aspx?aid=3042747>  
(Korea Joongang Daily, 2 Jan 2018)**Financial/  
Industrial  
Sector****Korean EV batteries once again excluded from government subsidies in China:**<http://pulsenews.co.kr/view.php?sc=30800021&year=2018&no=8329>  
(Maeil, 4 Jan 2018)**IBK to give 3,300 contract workers permanent position:**<http://pulsenews.co.kr/view.php?sc=30800021&year=2018&no=5775>  
(Maeil, 3 Jan 2018)**Hyundai and Kia aim to sell 7.55 million cars this year:**[http://www.koreatimes.co.kr/www/tech/2018/01/419\\_241817.html](http://www.koreatimes.co.kr/www/tech/2018/01/419_241817.html)  
(Korea Times, 2 Jan 2018)**Samsung Elec, Hynix face SSD patent litigation in US:**<http://pulsenews.co.kr/view.php?year=2018&no=2921>  
(Maeil, 2 Jan 2018)**Hyundai Motor to partner with Aurora for mass-production of autonomous vehicles**<http://www.businesskorea.co.kr/english/news/industry/20226-joint-development-hyundai-motor-partner-aurora-mass-production-autonomous>  
(Business Korea, 5 Jan 2018)**28 Dec 2017 KOSPI 2,467.49p, KOSDAQ 798.42p****30 Nov 2017 KOSPI 2,476.37p, KOSDAQ 771.42p**

5 January 2018

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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.

FX Rates	(Source: Reuters)	KRW/USD	KRW/100JPY	KRW/EUR	KRW/GBP
	- As of 29 Dec 2017	1066.40	946.20	1279.22	1440.88
	- As of 30 Nov 2017	1087.10	965.91	1293.90	1470.34

  

Interest Rates	Certificate of Deposit (CD) yield (91d)	1.66% p.a. (29 Dec 17)	1.64% p.a. (30 Nov 17)
	Treasury Bond yield (5y)	2.34% p.a. (29 Dec 17)	2.26% p.a. (30 Nov 17)
	Corp Bond yield ("AA-" rated, 3y)	2.68% p.a. (29 Dec 17)	2.63% p.a. (30 Nov 17)

**The House  
View  
11 Dec  
2017**

DB expects the robust macro backdrop to continue in 2018, with monetary policy continuing to gradually tighten

**Economic Outlook**

Global growth remain robust in 2018, even as momentum slows from highs, China slows down. Forecast 3.8% growth, higher than 2017

US growth to continue above potential at 2.6% in 2018, up from 2017. Drivers of growth broadening beyond solid consumer spending

Eurozone cyclically strong, see above consensus growth in 2018 at 2.3%. Main concern is how much longer can above-potential growth last

EM: cyclical acceleration to continue, growth ticking up to 4.9% in 2018, even as China growth slows slightly

**Views on key themes**

- Central banks on slow tightening path: led by Fed, followed by ECB but also across EM. Still low inflation means markets not yet fully pricing CBs' stated plans
- Risk assets: with favorable macro backdrop, rally can last, as long as rates rise is not sharp
- Political risk: to remain prevalent (e.g., Germany, Italy, Catalonia, Brexit, US mid-terms) but little macro impact
- Brexit: increasingly seen as a UK issue. Focus now turns to ability to agree transition deal by Q1-2018
- US tax reform: rising chances of reform. Positive esp. for high tax corporates, but not a major macro impact

**Central Bank Watch**

- Fed: expect rate hike in December, another 4 in 2018
- ECB: slow exit to continue. No new measures until mid-2018, expect QE to end in 2018, first hike in mid-2019
- BoJ: not under pressure to act, no change expected in target short rate or yield curve control policy
- BoE: on hold, risk is additional rate hikes
- PBoC: policy tightening to curb financial risks, followed by some easing in H2-2018 to avoid growth slowdown
- EM: rate hikes starting especially in Asia, CEE with few exceptions where cuts are still possible

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

**Economic & Financial Indicators**

Sources:  
Asia Economics  
Monthly

As of  
**8 Dec**  
**2017**

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

		2016	2017F	2018F	2019F
<b>Nominal GDP</b>	USD bn	1,412	1,520	1,696	1,777
<b>GDP per Capita</b>	USD	27,788	29,812	33,167	34,738
<b>Real GDP Growth</b>	% yoy	2.8	3.2	2.9	2.4
<b>Priv. consumption</b>	% yoy	2.5	2.4	2.6	2.1
<b>Gov't consumption</b>	% yoy	4.3	3.8	4.8	4.5
<b>Inflation</b>	% yoy ann avg	1.0	2.0	1.7	2.3
<b>Merchandise Exports</b>	USD bn	511.8	576.0	619.7	650.7
<b>Merchandise imports</b>	USD bn	391.3	455.4	497.9	530.1
<b>Trade Balance</b>	USD bn	120.4	120.6	121.8	120.6
<b>Current Account</b>	USD bn	98.7	79.9	74.5	71.9
<b>Gov't debt</b>	% of GDP	38.1	41.2	41.2	41.7
>Domestic	% of GDP	37.6	40.8	40.8	41.3
>External	% of GDP	0.5	0.4	0.4	0.4
<b>Total external debt</b>	% of GDP	29.6	27.0	24.7	24.0
<b>FX reserves</b>	USD bn	371.1	386.1	397.4	399.1
<b>Unemployment</b>	%	3.7	3.7	3.7	3.7
<b>FDI (net)</b>	USD bn	-16.4	-16.0	-18.0	-20.0
<b>FX Rate (eop)</b>	KRW/USD	1209	1080	1050	1080

<b>Financial market</b>	Current	18 1QF	18 2QF	18 4QF
<b>BoK base rate</b>	1.50	1.50	1.50	1.75
<b>91-day CD</b>	1.66	1.73	1.75	2.05
<b>10-year yield (%)</b>	2.49	2.80	3.00	3.10
<b>KRW/USD</b>	1087	1080	1060	1050

**Moody's: Aa2**

**S&P:AA**

**Fitch: AA-**

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