June 2018

Deutsche Bank South Korea Newsletter

Brief update on the Korean economy and the financial sectors

Economic /Political Update

Seoul expresses hope for success of Trump-Kim summit (June 5, 2018)
http://www.koreaherald.com/view.php?ud=20180605000206

Ire grows at campaign trucks' loud noise, illegal parking (June 4, 2018)
http://www.koreaherald.com/view.php?ud=20180604000882

Debate emerges over future role of US Forces in Korea (June 4, 2018)
http://www.koreaherald.com/view.php?ud=20180604000800

Speculation rise over cost of denuclearization (June 4, 2018)
http://www.koreaherald.com/view.php?ud=20180604000772

Financial/ Industrial Sector

Korea urged to protect chipmakers against China attack (June 4, 2018)
http://www.koreatimes.co.kr/www/tech/2018/06/133_250106.html

Korean conglomerates disbanding 'control tower' (June 5, 2018)
http://www.koreatimes.co.kr/www/tech/2018/06/694_250100.html

Samsung SDS unveils digital finance platform (June 4, 2018)
http://www.koreatimes.co.kr/www/tech/2018/06/133_250084.html

GM lifts travel ban to Korean unit (May 31, 2018)
http://www.koreatimes.co.kr/www/tech/2018/06/419_249932.html

31 May 2018 KOSPI 2,423.01p, KOSDAQ 879.66p

30 Apr 2018 KOSPI 2,515.38p, KOSDAQ 875.95p

FX Rates

(Source: Naver)	**KRW/USD**	**KRW/100JPY**	**KRW/EUR**	**KRW/GBP**
- As of 31 May 2018	1,078.00	991.36	1,257.97	1,435.30
- As of 30 Apr 2018	1,070.50	978.74	1,293.43	1,471.30

Interest Rates

Certificate of Deposit (CD) yield (91d)	1.65% p.a.	(31 May 18)	1.65% p.a.	(30 Apr 18)
Treasury Bond yield (5y)	2.48% p.a.	(31 May 18)	2.49% p.a.	(30 Apr 18)
Corp Bond yield ("AA-" rated, 3y)	2.82% p.a.	(31 May 18)	2.82% p.a.	(30 Apr 18)

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.

The House View
22 May 2018

World:

- Robust, broad-based global expansion continues, albeit at a decelerated pace. Synchronized growth across regions and economies, in many cases at above-trend levels. We expect global growth to rise to +3.9% this year, marginally above 2017, as fundamentals remain supportive.
- Europe has already begun to slow, and we expect US growth to peak this year as well. 2018 should mark the apex of the current cyclical expansion; global growth should slow down broadly from 2019.
- Trade tensions have been resolved positively, at least for now. Other slow-burning issues remain, such as the anti-establishment government in Italy, Brexit negotiations, higher inflation, less accommodative central bank policies, geopolitical tensions in Iran and North Korea, and incipient stress in emerging market assets.

United States:

- Growth to accelerate in 2018 to an annual pace of +2.9%, the fastest since 2005, boosted around 0.7pp by the combination of tax cuts and increased government spending.
- Economic momentum remains very strong and supports our above-consensus expectations for growth this year. Financial conditions remain accommodative despite recent volatility and dollar strength, which will continue to act as a tailwind to economic activity.
- Recent wage and price data supports our expectation for inflation to surprise to the upside this year. Labor markets have tightened and little slack remains, so growth will become increasingly inflationary this year.

Eurozone:

- We have revised down our Eurozone growth forecasts to reflect the recent softening in growth momentum. We now expect full-year 2018 growth of +2.1%, down 0.3 percentage points from our prior forecast but still comfortably above our estimate of potential growth (which is around +1.0%).
- The current pace of growth is unsustainable. Cyclical momentum will naturally decline a output gaps close; financial conditions will tighten as the ECB withdraws accommodatio the boost from net exports will fade as Asia decelerates; and the stronger euro will drag on growth.
- We expect the market response to the new Italian government to remain contained. Italy is in a much better position compared to 2011-12. Spreads are unlikely to widen enough to result in an "unwarranted tightening of financial conditions" and should therefore support the ECB's existing policy trajectory.

China:

- We expect China's economic growth to slow down +6.6% this year, up from our forecast earlier this year. Fiscal policy has remained robust, boosted by healthy land sale volumes which have offset planned tightening. Still, we expect policy to become less supportive through the rest of this year.
- There is a strong link between the real estate market and fiscal policy in China. Recent land sales have been very strong and will support fiscal expansion this year, supporting our above-consensus forecasts.

- The risks are to the upside, as higher housing prices are likely to support household wealth and could spark a positive cycle in consumption.
- We expect CNY to stay broadly stable through 2018; tighter than expected capital controls have limited outflows.

Emerging Markets:

- EM growth is accelerating and inflation is rising, though there are still elevated risks from the strong dollar, higher US rates, potential trade conflict, and idiosyncratic headwinds in specific EM countries.
- While many EM currencies have been pressured over the last few weeks, we do not expect much monetary tightening; central banks are likely to focus on low inflation and remain supportive of growth.
- Political stories remain key drivers in Turkey, Argentina, and Russia, while upcoming elections will continue to be relevant in Colombia, Mexico, and Brazil.

(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 May 2018**

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

		2016	2017F	2018F	2019F
Nominal GDP	USD bn	1,412	1,537	1,678	1,708
GDP per Capita	USD	27,547	28,217	32,488	32,963
Real GDP Growth	% yoy	2.8	3.1	2.8	2.5
Priv. consumption	% yoy	2.5	2.6	3.0	2.3
Gov't consumption	% yoy	4.3	3.7	5.0	4.7
Inflation	% yoy ann avg	1.0	1.9	1.9	2.4
Merchandise Exports	USD bn	511.8	577.4	628.7	661.5
Merchandise imports	USD bn	393.1	457.5	519.3	554.0
Trade Balance	USD bn	118.9	119.9	109.4	107.5
Current Account	USD bn	99.2	78.5	67.1	66.0
Gov't debt	% of GDP	38.1	40.7	40.7	41.2
>Domestic	% of GDP	37.6	40.3	40.3	40.8
>External	% of GDP	0.5	0.4	0.4	0.4
Total external debt	% of GDP	29.6	28.2	25.0	25.0
FX reserves	USD bn	371.1	389.3	401.1	405.0
Unemployment	%	3.7	3.7	3.7	3.7
FDI (net)	USD bn	-17.9	-14.6	-18.0	-20.0
FX Rate (eop)	KRW/USD	1,209	1,071	1,095	1,115

Financial market	Current	18 Q2F	18 Q3F	18 Q4F
BoK base rate	1.50	1.50	1.75	2.00
91-day CD	1.65	1.75	2.00	2.30
10-year yield (%)	2.78	2.80	2.85	3.10
KRW/USD	1,081	1,085	1,090	1,095

Moody's: Aa2 **S&P:AA** **Fitch: AA-**

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