Deutsche Bank

March 2018

Deutsche Bank South Korea Newsletter

Brief update on the Korean economy and the financial sectors

Economic /Political Update

US, Korea's interest rate reversal imminent:
http://www.koreatimes.co.kr/www/biz/2018/03/367_244865.html

Korea signs FTS with Central America:
http://www.koreatimes.co.kr/www/biz/2018/03/367_244537.html

Rising US protectionism may hurt Korean economy:
http://www.koreatimes.co.kr/www/biz/2018/03/367_244556.html

Financial/ Industrial Sector

Korean Shipbuilding Industry is landing increased orders:
http://www.businesskorea.co.kr/english/news/industry/20794-sign-recovery-korean-shipbuilding-industry-landing-increased-orders

15% of GM Korea workers opted to leave their company:
http://www.businesskorea.co.kr/english/news/industry/20790-amid-halved-domestic-sales-15-gm-korea-workers-opted-leave-their-company

Samsung SDI to provide battery modules to Kauai ESS project:
http://www.koreaherald.com/view.php?ud=20180304000163

30 Jan 2018 KOSPI 2,567.74p, KOSDAQ 920.96p

28 Feb 2018 KOSPI 2,427.36p, KOSDAQ 857.06p

FX Rates	(Source: Naver)	KRW/USD	KRW/100JPY	KRW/EUR	KRW/GBP
	- As of 31 Jan 2018	1,069.00	978.83	1,327.80	1,517.02
	- As of 28 Feb 2018	1,082.50	1,012.01	1,322.44	1,495.37

Interest Rates			
	Certificate of Deposit (CD) yield (91d)	1.65% p.a. (31 Jan 18)	1.65% p.a. (28 Feb 18)
	Treasury Bond yield (5y)	2.57% p.a. (31 Jan 18)	2.52% p.a. (28 Feb 18)
	Corp Bond yield ("AA-" rated, 3y)	2.81% p.a. (31 Jan 18)	2.82% p.a. (28 Feb 18)

The House View 7 Feb 2018

Global:
We expect global growth to accelerate to +3.9% in 2018, marginally faster than 2017 which was the fastest in a decade, with the improvement led by the US and emerging markets. We expect the Eurozone to continue growing above potential, but do not anticipate any further acceleration.

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.

In China, we expect growth to slow, and are more worried about inflation and financial risks than consensus.

This remains a very robust and broad-based economic backdrop. However, 2018 should mark the peak of the current cyclical expansion, and growth should decelerate from 2019.

US:

Growth to accelerate in 2018 to +2.7%, the fastest pace since 2015, boosted around 0.3-0.4pp by Trump's tax reform. We note upside risks to this estimate given the potential for increased fiscal spending if Congress ends up raising its spending caps in the FY2018 budget.

Growth momentum remains very strong. Fourth quarter 2017 GDP printed below our expectations, but the miss was attributable to inventories and we expect growth to compensate this quarter.

Dollar weakness (7% depreciation on a trade-weighted basis in 2017) should add a few tenths of a percentage point to both inflation and growth this year.

Eurozone:

Eurozone growth has risen to the fastest pace in a decade. We forecast +2.3% growth for 201 in line with consensus. We expect growth to decelerate in the second half of the year as tailwinds fade.

The current pace of growth is far above our estimate of potential growth, which is around +1.0%. Cyclical momentum will naturally decline as output gaps close; financial conditions wil tighten as the ECB withdraws accommodation; the boost from net exports will fade as Asia decelerates; and the stronger euro will drag on growth.

German wage negotiations point to wage rises at the high-end of the range which should boos policymakers' confidence that tightening labor markets will lead to higher inflation.

The political agenda remains busy, with Germany's government formation, Brexit negotiations, the Italian election and the debate on EU reform. On all fronts, though, our baseline scenario i for little fundamental change or macro impact.

China:

China's economy to continue decelerating in 2018. We forecast +6.3% growth vs. +6.9% for 2017. We see risks balanced on both sides. Fiscal and monetary policies will remain tight anc investment will continue to slow. This will be partially balanced by strong wage growth and consumer spending.

Assuming growth decelerates as we expect, PBoC should ease monetary policy in H2 (we see two RRR cuts) to prop up growth again.

We expect the renminbi to remain roughly stable versus the PBoC's trade-weighted basket, a strengthen vs. the dollar. Capital controls are also tighter than we expect.

We see two major risks to our base case. The first is inflation: core inflation reached a 6-year high in 2017 and could rise further this quarter; this could prompt PBoC to raise rates (in the past we have seen hikes when CPI reached +3.0%). The second is financial stability on the back of high leverage in the financial sector. The system has grown more complex, credit quality has deteriorated, and IMF stress tests showed potential capital shortfalls.

(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 **15 Feb 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	1,533	1,677	1,709
GDP per Capita	USD	27,547	28,529	32,484	32,980
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	1.8	2.3
Merchandise Exports	USD bn	511.8	576.0	617.2	652.2
Merchandise imports	USD bn	391.3	456.7	509.2	544.6
Trade Balance	USD bn	120.4	119.7	108.0	107.6
Current Account	USD bn	98.7	79.0	67.9	64.9
Gov't debt	% of GDP	38.1	40.8	40.8	41.1
>Domestic	% of GDP	37.6	40.3	40.3	40.7
>External	% of GDP	0.5	0.4	0.4	0.4
Total external debt	% of GDP	29.6	28.3	25.0	25.0
FX reserves	USD bn	371.1	389.3	401.9	404.7
Unemployment	%	3.7	3.7	3.7	3.7
FDI (net)	USD bn	-17.9	-16.1	-18.0	-20.0
FX Rate (eop)	KRW/USD	1,209	1,071	1,095	1,115

Financial market	Current	18 Q1F	18 Q2F	18 Q4F
BoK base rate	1.50	1.50	1.50	2.00
91-day CD	1.65	1.73	1.75	2.30
10-year yield (%)	2.78	2.90	3.10	3.20
KRW/USD	1,077	1,075	1,075	1,095

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

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