Korea: BOK could pause after back-to-back hikes

- **The Bank of Korea hiked its policy rate by 25bp to 3.00% on 27 August, in line with our expectation. While the market was split between a 25bp hike and no change, the BOK decided to hike due to elevated inflation and strong growth supported by semiconductor cycle and related income growth.**
- **The BOK's forward guidance was more dovish than what the market expected with six-month forward guidance signalling one more rate hike until Q127. We continue to expect the BOK to hike one more time to reach 3.25%, potentially in Q426.**
- **The BOK's dot plot today will help curb upside in near-term rates. With the KTB curve now looking quite steep relative to recent years, there could be value in considering flattening positions. We have recently revised our USD/KRW forecasts to 1,385 and 1,360 for end-2026 and end-2027 respectively from 1,435 and 1,420.**


Yeon Jin Kim
Emerging Market Analyst
+852 2826 5756
yeonjin.kim@ca-cib.com

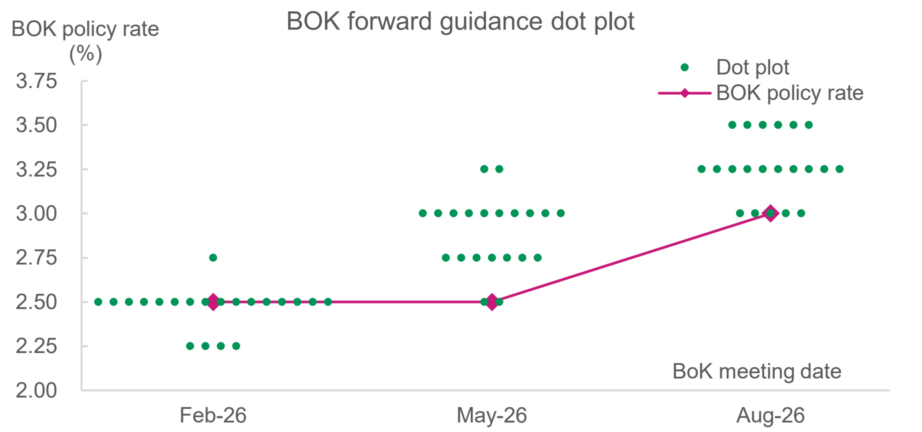

Eddie Cheung CFA
Senior EM Strategist
+852 2826 1553
eddie.cheung@ca-cib.com

Pre-emptive rate hike but dovish forward guidance

The Bank of Korea hiked its policy rate by 25bp to 3.00% on 27 August, in line with our view. Market view was split between a 25bp hike and no change. But the BOK decided to hike in back-to-back meetings in order to address inflationary pressures. MPC member Hwang Kun il was the only dissenter, voting for no change. Governor Shin Hyun Song explained that Hwang agreed on the big picture, and there was difference in tactical aspect, suggesting the August rate hike was broadly supported.

While the back-to-back hike was seen as a hawkish move, the BOK's forward guidance was more dovish than what the market previously expected. Though the market was worried about some dots in the six-month forward guidance pointing to 3.75%, the highest dots were at 3.50%. Out of 21 dots (with3 dots contributed by each of the 7 MPC members) 5 dots were at 3.00%, 10 dots were at 3.25% and 6 dots were at 3.50%. This suggested that most of the BOK MPC members are expecting to hike one more time to 3.25% in the next four rate decisions until Q127.

BOK dot plots signalling more hikes in coming 6M, but less than expected



Source: BOK, Crédit Agricole CIB

Recent publications

24-Jul–*EM Trade Idea: Take profit on sell EUR/KRW*
23-Jul–*EM Focus: Korea: strong Q2 GDP supports expectation for August BOK hike*
16-Jul–*EM Focus: Korea: BOK opens door to back-to-back hikes*
13-Jul–*EM Focus: Korea: July BOK hike and back-to-back hike chance?*
8-Jul–*EM Trade Idea: Trail stop sell EUR/KRW*

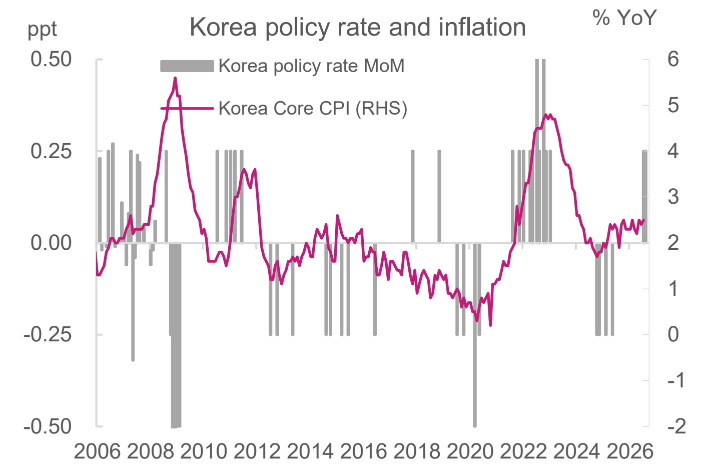
Also, in the BOK statement, the phrase "it will be necessary to continue a policy stance consistent with further rate hikes" was removed, implying the BOK is likely to slow its rate hike pace in order to monitor the impact of the hikes made so far.

Inflation is still the key concern for the BOK

The BOK's key focus remained on inflation, similar to July. The BOK maintained its headline CPI inflation forecasts unchanged for 2026 and 2027 at 2.7% and 2.3% respectively. But as hinted in July, the core CPI inflation forecasts were revised higher to 2.5% for both 2026 and 2027, from 2.4% and 2.3% respectively, supporting the BOK's additional rate hike.

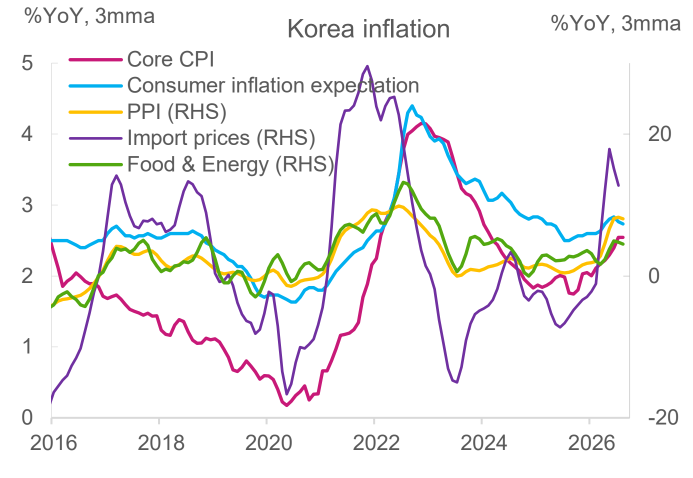
Governor Shin Hyun Song noted that there are rising risks of inflation spreading more widely and persisting for longer due to demand-side pressures from improved income conditions and the continued pass-through of accumulated cost pressures.

BOK hiked due to inflation concerns



Source: CEIC, Crédit Agricole CIB

Inflation momentum is climbing



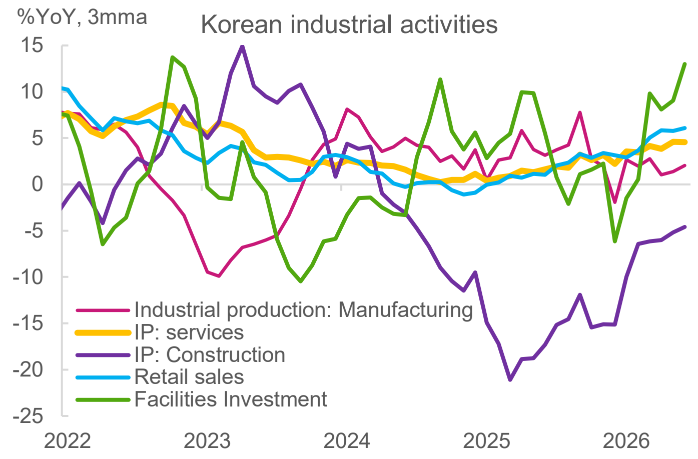
Source: CEIC, Crédit Agricole CIB

Strong economic growth to continue to 2027

As signalled in July, the BOK revised higher its 2026 GDP forecast to 3.3% from 2.6% previously. The BOK explained that the strong semiconductor sector is not only supporting exports and facilities investment but also government spending via increased tax revenue and private consumption through bigger bonuses and income growth. Within the 0.7ppt upward revision, strong semiconductor cycle (0.35ppt), better-than-expected Q1 GDP growth (0.2ppt), faster investment (0.1ppt) and smaller negative impact from the Middle East (0.1ppt) were the main contributors. The BOK also revised its 2027 GDP forecast notably to 2.9% from 2.1%. The significant upward GDP forecast revisions for both 2026 and 2027 suggest that the BOK expects the positive growth momentum to continue for a longer period.

Governor Shin also said Korea's GDP gap (real GDP-potential GDP) is at threshold of returning to positive, much sooner than the BOK previously expected. It was also interesting that the BOK noted that employment continued to increase moderately mainly in the services sector and did not show concerns youth unemployment. Relative to our own views, we think that growth could be higher than what the BOK expects in 2026 but lower than the BOK in 2027. We forecast GDP growth of 3.5% and 2.7% in 2026 and 2027 respectively.

Economic activities are improving



Source: CEIC, Crédit Agricole CIB

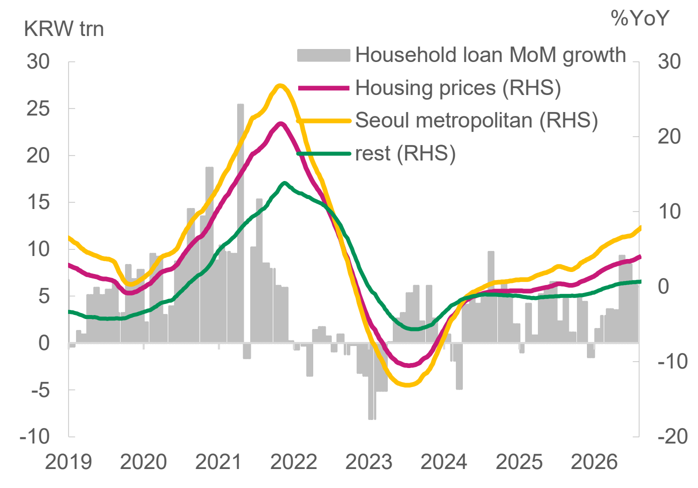
Strong GDP and GDI growth

Source: CEIC, Crédit Agricole CIB

Housing market still hot, though it is not a major consideration

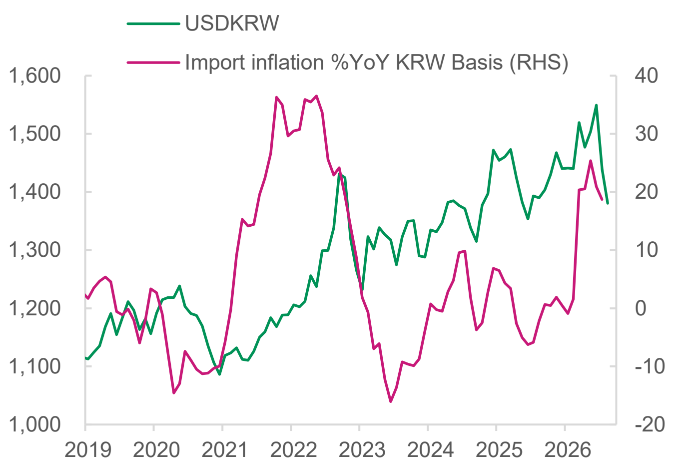
The housing market seems to be a less important factor for the BOK in August compared to growth and inflation as Governor Shin said that the monetary policy cannot alone curb housing price. But in the statement, the BOK noted that housing prices in the Seoul metropolitan area continued to rise with household loans growing notably. This also supports the BOK's decision to hike rates.

Housing prices continue to rise



Source: CEIC, Crédit Agricole CIB

Lower USD/KRW level but still high import prices



Source: CEIC, Crédit Agricole CIB

Time to digest July and August rate hikes before hiking again

We continue to expect another 25bp hike to 3.25% in Q426, and no change in 2027. Considering that the BOK removed the phrase "it will be necessary to continue a policy stance consistent with further rate hikes", the BOK is likely to slow its rate hike pace though Governor Shin has flagged that every meeting is now "live".

Given there are two months before the October meeting, the BOK's stance could turn more hawkish again, Governor Shin highlighted that August CPI inflation (2 September) and September CPI inflation (2 October), second print of Q2 GDP growth together with the nominal GDP print (8 September) as well as business sentiment (29 September) will be key data to be watched. We think that both headline and core CPI inflation prints in August are likely to rebound to 3% YoY and to record around the high 2%/low 3% range in September while GDP growth would remain strong. This may turn the BOK more hawkish.

On the other hand, there is a risk of the BOK delaying its rate hike to Q127 if global oil prices decline and a stronger KRW leads to softer import inflation while consumer and business sentiment cool with the rate hikes in July and August. This is not our base case though. We think the BOK could pause at its 22 October meeting before hiking again on 26 November.

Long term yield overreaction?

With the market showing some signs of a split heading into the BOK meeting today, there was some volatility in the futures market with markets first reacting more hawkishly to the rate hike before giving it all back as more details around the meeting came out. In the end, KTB yields declined across the board today in a sign that the market saw the BOK meeting as being more dovish than expected. An important takeaway from the dot plot today is that no MPC member saw the policy rate at 3.75% in six months, which in our view will help curb upside in near-term rates.

That said, the climb in long-end KTB yields has been a market focus in recent weeks. We highlighted the 10Y as looking attractive in July and indeed that has declined. Though yields past 10Y have climbed with the 20Y yield reaching its highest level since 2011 and the 30Y at a new high. The weak sentiment in the long end is a concern with weak demand, though it is in part also driven by the climb in longer-end global yields. As a result, government officials have said that they plan to reduce the issuance amount in September and will conduct some buybacks and KTB exchange offers in the 30Y to provide some support.

With the US Treasury also embarking on a bond buyback to moderate the climb in longer-end yields, we think this has positive spillovers for longer tenor rates in Korea. With the KTB curve now looking quite steep relative to recent years, there could be value in considering flattening positions.

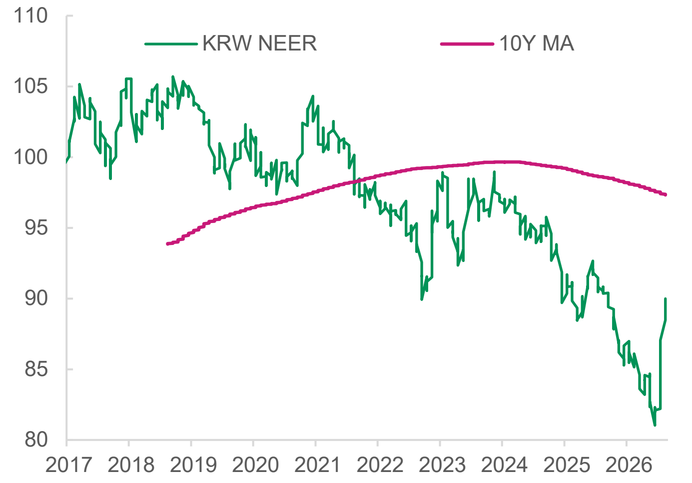
KRW gains could be more limited ahead

The KRW featured prominently today both heading into the meeting and during the press conference. Ahead of the meeting, there had been the view that the rally in the KRW would be a factor which could cause the BOK to pause. However, it turned out that the consideration was not as significant. Governor Shin said that he still considers the USD/KRW level to be too high and that spot can decline further. The idea that USD/KRW could trend lower was something he reiterated later, though he emphasised that the BOK is focusing more on the predictability of USD/KRW rather than the actual level.

Indeed, USD/KRW has made significant gains since the BOK's last meeting, falling from just below 1,500 to now close to 1,380. The gains in the KRW have been quite significant especially when considering that USD/KRW had been testing as high as 1,560 just a few months ago. Back then, the rocketing higher of the KOSPI led to foreign portfolio rebalancing and outflows from Korea. However, with the KOSPI now close to 25% below its highs for the year, the pressure to rebalance has eased. Instead, the KRW has been supported by the stronger current account as a result of global AI demand, repatriation flow by Korean companies for buyback and the weaker USD. Measures by the authorities enacted when USD/KRW was above 1,500 have reduced both USD/KRW buying and also led to more KRW demand.

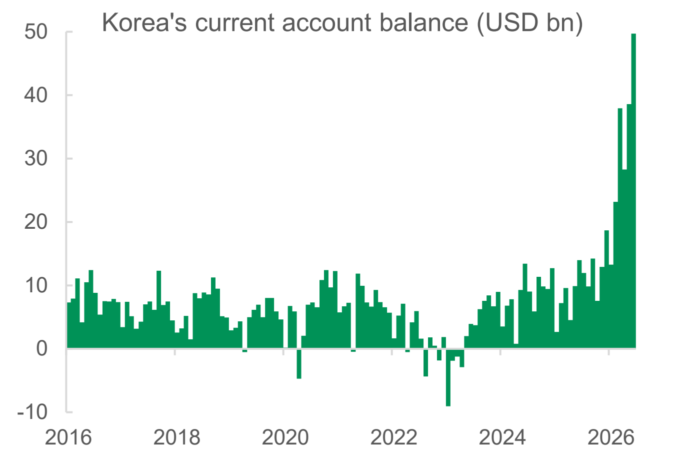
The question is whether the KRW can gain much further at this juncture with USD/KRW now nearing 1Y lows and the KRW TWI having climbed close to 10%. Near-term there is still some potential for the KRW to be supported given that large share buyback programmes are set to persist to mid-August. However, following that, the KRW could see pressure from dividend outflows and potentially a renewed pick-up in retail buying of foreign equities could help to moderate some of the KRW demand. Therefore, we would caution in chasing this down move in USD/KRW too far. We have recently revised our USD/KRW forecasts to 1,385 and 1,360 for end-2026 and end-2027 respectively from 1,435 and 1,420.

KRW TWI has rallied sharply in recent weeks



Source: Bloomberg, CEIC, Crédit Agricole CIB

Korea's macro fundamental is strong



Source: CEIC, Crédit Agricole CIB

Emerging Markets Research advanced tools

With Red Mount Analytics, we are setting a new standard for market intelligence

FIVE MAIN ANGLES:

1. ***Fundamentals.***

Our convictions on the main markets. Specific focuses on individual countries and currencies. Transversal dashboards that allow us to profile specific markets and compare them to their peers.

2. Forecasts and recommendations.

Fast-track access to our main EM macroeconomic forecasts and FX projections.

3. Market monitor.

Check the market action. Seize EM opportunities.

4. Flows and supply.

Data on targeted markets, including volume on the secondary market, liquidity, APAs and maturity.

5. Relative value.

Providing cheap/expensive metrics for EM currencies and models on exchange rates. Our models will show you how we express our view in an EM FX Portfolio, or what's hot in Asian FX markets, among other metrics.

Source: RMA by Crédit Agricole CIB

Red Mount Analytics

Complex markets require the most advanced and powerful tools…

Source: RMA by Crédit Agricole CIB

Our new interactive data website features:

- 25bn data points
- over 4,500 interactive charts
- over 1,000 proprietary models
- over 250 use cases
- over 150 thematic reports
- 9 product classes (eg, EM, FX, Sustainable, Credit)
- 6 categories (eg, flows, fundamentals, RV)
- 90% exclusive content
- AI modelling

Global Markets Research contact details

Jean-François Paren Head of Global Markets Research +33 1 41 89 33 95

	Asia (Hong Kong, Singapore & Tokyo)		Europe (London & Paris)		Americas (New York)
Macro Strategy	Takuji Aida Chief Economist Japan +81 3 4580 5360	Ken Matsumoto Macro Strategist Japan +81 3 4580 5337	**Louis Harreau** **Head of Developed Markets Macro & Strategy** **+33 1 41 89 98 95**	Valentin Giust Global Macro Strategist +33 1 41 89 30 01	Nicholas Van Ness ** Chief US Economist +1 212 261 7601
Interest Rates			**Jean-François Perrin** **Head of Rates and Inflation Research & Strategy** **+33 1 41 89 73 49** Matthias Loise Inflation Strategist +33 1 41 89 20 06	Guillaume Martin Interest Rates Strategist +33 1 41 89 37 66 Riccardo Lamia Interest Rates Strategist +33 1 41 89 63 83 Monna Dimitrova Interest Rates Strategist +33 1 41 89 05 61	Alex Li ** Head of US Rates Strategy +1 212 261 3950
Emerging Markets	Xiaojia Zhi Chief China Economist Head of Research, Asia ex-Japan +852 2826 5725 Eddie Cheung CFA Senior Emerging Market Strategist +852 2826 1553	Jeffrey Zhang Emerging Market Strategist +852 2826 5749 Yeon Jin Kim Emerging Market Analyst +852 2826 5756	**Sébastien Barbé** **Head of Emerging Market Research & Strategy** **+33 1 41 89 15 97**		Olga Yangol ** Head of Emerging Market Research & Strategy, Americas +1 212 261 3953
Foreign Exchange	David Forrester Senior FX Strategist +65 6439 9826		**Valentin Marinov** **Head of G10 FX Research & Strategy** **+44 20 7214 5289**	Alexandre Dolci FX Strategist +44 20 7214 5064	
Quant Research			Alexandre Borel Data Scientist +33 1 57 87 34 27		

*** employee(s) of Crédit Agricole Securities (USA), Inc.*

Certification

The views expressed in this report accurately reflect the personal views of the undersigned analyst(s). In addition, the undersigned analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report.

Eddie Cheung CFA, Yeon Jin Kim

Important: Please note that in the United States, this fixed income research report is considered to be fixed income commentary and not fixed income research. Notwithstanding this, the Crédit Agricole CIB Research Disclaimer that can be found at the end of this report applies to this report in the United States as if references to research report were to fixed income commentary. Products and services are provided in the United States through Crédit Agricole Securities (USA), Inc.

Foreign exchange disclosure statement to clients of CACIB

https://www.ca-cib.com/sites/default/files/2017-02/2016-05-04-cacib-fx-disclosure-april-2016_0.pdf

Additional recommendation obligations – available from analyst(s) upon request:

- A list of all the recommendation changes on any financial instrument or issuer disseminated within the last 12 months.
- Where Crédit Agricole CIB is a market-maker or liquidity provider in the financial instruments of the issuer.

Valuation and methodology

Based on their expertise, each analyst defines the information that is relevant to produce their recommendations. This information may change over time. All recommendations focus on FX instruments, either G10 FX spot or G10 FX derivative markets. Crédit Agricole CIB is currently disclosing investment recommendations either at the issuer level, at the financial instrument level or at the country level. Credit Agricole CIB investment recommendations are based on a risk and reward analysis:

- Risk analysis may be conducted at the financial instruments level. Among the information normally used to define the risks, are (1) publications produced by other research teams within Crédit Agricole CIB (Economics, FX, Credit Research, Emerging Markets), (2) country analysis, (3) regulatory filings; (4) regular discussions with relevant stakeholders such as experts or regulatory bodies or (5) any other publicly available sources.
- Reward analysis is usually based on valuation models. Valuation may be based on proprietary models or external models provided by sources considered as reliable (eg, Bloomberg). Among other factors, valuation models may be based on relative value models, quantitative models, cross-asset models.
- Investment recommendations may also be based on other technical aspects, including positioning flows and observing the market and underlying movements in particular instruments or issuers. This analysis will take into account key criteria such as market liquidity of the financial instrument at the time of production of the recommendation.

Any change in recommendation is disclosed via specific documents indicating both the new and the previous recommendation and the rationale backing the change.

Credit Agricole CIB expressly disclaims any responsibility for: (i) the accuracy of the models or estimates used in deriving the recommendations; (ii) any errors or omissions in computing or disseminating the valuations: and (iii) any uses to which the recommendations are put. Any valuation provided may be different from the valuation of the same product that Credit Agricole CIB may use for its own purposes, including those prepared in its own financial records.

MiFID II contact details

Andrew Taylor MiFID II Research contact andrew.taylor@ca-cib.com	Please send your questions on MiFID II to: research.mifid2@ca-cib.com

Disclaimer

This research report or summary has been prepared by Crédit Agricole Corporate and Investment Bank or one of its affiliates (collectively "Crédit Agricole CIB") from information believed to be reliable. Such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made as to its accuracy, completeness or correctness.

This report is provided for information purposes only. Nothing in this report should be considered to constitute investment, legal, accounting or taxation advice and you are advised to contact independent advisors in order to evaluate this report. It is not intended, and should not be considered, as an offer, invitation, solicitation or personal recommendation to buy, subscribe for or sell any of the financial instruments described herein, nor is it intended to form the basis for any credit, advice, personal recommendation or other evaluation with respect to such financial instruments and is intended for use only by those professional investors to whom it is made available by Crédit Agricole CIB. Crédit Agricole CIB does not act in a fiduciary capacity to you in respect of this report.

Crédit Agricole CIB may at any time stop producing or updating this report. Not all strategies are appropriate at all times. Past performance is not necessarily a guide to future performance. The price, value of and income from any of the financial instruments mentioned in this report can fall as well as rise and you may make losses if you invest in them. Independent advice should be sought. In any case, investors are invited to make their own independent decision as to whether a financial instrument or whether investment in the financial instruments described herein is proper, suitable or appropriate based on their own judgement and upon the advice of any relevant advisors they have consulted. Crédit Agricole CIB has not taken any steps to ensure that any financial instruments referred to in this report are suitable for any investor. Crédit Agricole CIB will not treat recipients of this report as its customers by virtue of their receiving this report.

Crédit Agricole CIB, its directors, officers and employees may have financial interests or may effect transactions (whether long or short) in the financial instruments described herein for their own accounts or for the account of others, may have positions relating to other financial instruments of the issuer thereof, or any of its affiliates, or may perform or seek to perform securities, investment banking or other services for such issuer or its affiliates, within the regulatory framework set by Article 37 of Delegated Regulation (EU) 2017/565. Crédit Agricole CIB may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Without prejudice to the requirements arising from Article 4 of Delegated Regulation (EU) 2016/958, Crédit Agricole CIB is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. Crédit Agricole CIB has established a "Policy for Managing Conflicts of Interest" which is available upon request. A summary of this policy is published on the Crédit Agricole CIB website conflict of interest | Crédit Agricole CIB. This policy also applies to the investment research activity.

None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party without the prior express written permission of Crédit Agricole CIB. To the extent permitted by applicable securities laws and regulations, Crédit Agricole CIB accepts no liability whatsoever for any direct or consequential loss arising from the use of this document or its contents.

France: Crédit Agricole Corporate and Investment Bank is authorized and regulated by the Autorité de Contrôle Prudentiel et de Résolution ("ACPR") and supervised by the European Central Bank ("ECB"), the ACPR and the Autorité des Marchés Financiers ("AMF"). Crédit Agricole Corporate and Investment Bank is incorporated in France with limited liability. Registered office: 12, Place des Etats-Unis, CS 70052, 92 547 Montrouge Cedex (France). Companies Register: SIREN 304 187 701 with Registre du Commerce et des Sociétés de Nanterre. United Kingdom: Crédit Agricole CIB is authorised and regulated by the Autorité de Contrôle Prudentiel et de Résolution (the "ACPR") and supervised by the European Central Bank (the "ECB"), the ACPR and the Autorité des Marchés Financiers (the "AMF") in France. Crédit Agricole CIB London Branch is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Crédit Agricole CIB London on request. Crédit Agricole Corporate and Investment Bank is a public limited company ("société anonyme") under French law, incorporated in France under SIREN number 304187701 at the Nanterre Trade and Companies Registry, with limited liability and its head office address at 12, Place des États-Unis, CS 70052, 92547 Montrouge Cedex, France. It is registered in England and Wales as an overseas company at Companies House under company number FC008194, with a UK establishment at Broadwalk House, 5 Appold Street, London, EC2A 2DA, United Kingdom (UK establishment number BR001975). United States of America: This research report is prepared by Crédit Agricole Corporate and Investment Bank and is distributed in the United States solely to persons who qualify as "Major U.S. Institutional Investors" as defined in Rule 15a-6 under the Securities and Exchange Act of 1934 and who deal with Crédit Agricole Corporate and Investment Bank. This report does not carry all of the independence and disclosure standards of a retail debt research report or a research report prepared by a U.S. broker-dealer. Recipients of this research in the United States wishing to effect a transaction in any security mentioned herein should do so by contacting Crédit Agricole Securities (USA), Inc. (a broker-dealer registered with the Securities and Exchange Commission ("SEC") and the Financial Industry Regulatory Authority ("FINRA"). The delivery of this research report to any person in the United States shall not be deemed a recommendation of Crédit Agricole Securities (USA) Inc. to effect any transactions in the securities discussed herein or an endorsement of any opinion expressed herein. This report shall not be re-distributed in the United States without the consent of Crédit Agricole Securities (USA) Inc. Italy: Crédit Agricole Corporate and Investment Bank is authorised and regulated by the Autorité de Contrôle Prudentiel et de Résolution (the "ACPR") and supervised by the European Central Bank (the "ECB"), the ACPR and the Autorité des Marchés Financiers (the "AMF") in France. Crédit Agricole Corporate and Investment Bank Milan Branch is subject to supervision by the Bank of Italy and by the Commissione nazionale per le società e la borsa ("CONSOB"). This report is not intended, and should not be considered, as an offer, invitation, solicitation or recommendation to buy or sell any of the financial instruments described herein. This report is not intended, and should not be considered, as advice on investments in securities under the Consolidated Financial Law (Legislative Decree No. 50 of 24 February 1998) and can only be distributed to, and circulated among, professional investors (controparti qualificate), as defined by the relevant Italian securities legislation. Spain: This report may only be distributed to professional investors (as defined in Article 194 of Law 6/2023, of 17 March, of the Securities Markets and the Investment Services, and Article 112 of Royal Decree 813/2023, of 8 November, on the legal regime for investment services firms and other entities providing investment services) and cannot be distributed to other investors that do not fall within the category of professional investors. Hong Kong: Distributed by Crédit Agricole Corporate and Investment Bank, Hong Kong branch, an authorized financial institution registered with the Securities and Futures Commission for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities with Central Entity Number AAK816. This research report has not been reviewed or authorised by any regulatory authority in Hong Kong and is available only for professional investors within the meaning of the Securities and Futures Ordinance (Cap.571) and its subsidiary legislations. Japan: Distributed by Crédit Agricole Securities Asia B.V. which is registered for financial instruments business in Japan pursuant to the Financial Instruments and Exchange Act (Act No. 25 of 1948), and is not intended, and should not be considered, as an offer, invitation, solicitation or recommendation to buy or sell any of the financial instruments described herein. This report is not intended, and should not be considered, as advice on investments in securities which is subject to the Financial Instruments and Exchange Act (Act No. 25 of 1948). Singapore: Crédit Agricole Corporate and Investment Bank, Singapore branch ("CACIB SG") may distribute information/research produced by its head office Crédit Agricole Corporate and Investment Bank incorporated in France, pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Credit Agricole Corporate and Investment Bank only distributes to accredited, expert, or institutional investors (in each case, as defined in the Securities and Futures Act 2001).

Switzerland: This report is provided only to institutional clients and/or professional clients within the meaning of the Swiss Financial Services Act and in strict compliance with applicable Swiss law. This document is not a prospectus within the meaning of Swiss Financial Services Act. The products mentioned in this document may not be suitable for all types of investors. Germany: This report may only be distributed to institutional investors. Australia: Distributed to wholesale investors only. This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.

THE DISTRIBUTION OF THIS DOCUMENT IN OTHER JURISDICTIONS MAY BE RESTRICTED BY LAW, AND PERSONS INTO WHOSE POSSESSION THIS DOCUMENT COMES SHOULD INFORM THEMSELVES ABOUT, AND OBSERVE, ANY SUCH RESTRICTIONS. BY ACCEPTING THIS REPORT, YOU AGREE TO BE BOUND BY THE FOREGOING.

09/12/25