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All Signal, No Noise

MARKET ANALYSIS

MNI BoK Preview – October 2025

Meeting Date:

Link to Previous Statement

https://www.bok.or.kr/eng/bbs/E0000634/view.do?nttId=10093244&searchCnd=1&searchKwd=&depth2=400417&depth3=400423&date=&sdate=&edate=&sort=1&pageUnit=10&depth=400423&pageIndex=3&programType=newsDataEng&menuNo=400423&oldMenuNo=400423

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MNI POV (Point Of View): BOK on Hold Again as Housing Remains Key

We see little scope for the Bank of Korea to cut rates given the government's focus on the real estate sector and the ongoing acceleration of prices in Seoul. Last week's release of the September Loans to Households was watched closely to see if the focus on housing is having an effect. However, with mortgage loans increasing 2.5t won MoM to KRW932.7 tn, the government may have to wait awhile longer before the impact shows up in the data.

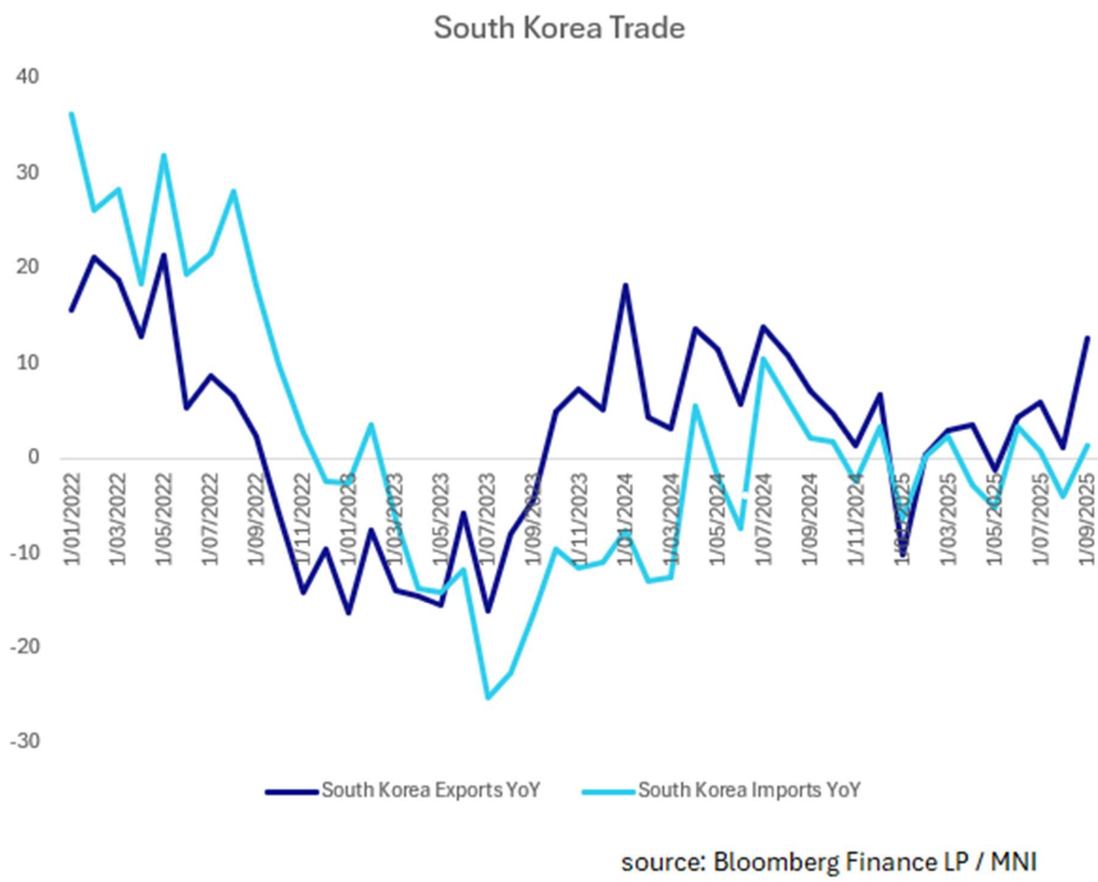
South Korea has announced further measures aimed at cooling the sector including tighter loan limits specifically in Seoul, higher risk weights on banks' home loan portfolios and reducing loan to value ratios for purchases. These measures will take time to flow through the data (and hence the economy) providing limited opportunities for the BOK to alter the path for interest rates. "The recent instability in housing markets is spreading on rate-cut expectations and persistent supply-demand imbalances that are driving concerns over excess capital inflows into real estate," said the Minister of Land, Infrastructure and Transport recently. "In response, we're going to take pre-emptive measures to curb instability in the housing market early and to ensure that capital is directed toward more productive sectors of the economy," he added.

The BOK cited trade uncertainties at their last meeting in late August as a determinant for the decision to remain on hold at 2.50%. Korea is "more likely" to reach a detailed tariff agreement with the United States on the sidelines of the upcoming Asia-Pacific Economic Cooperation (APEC) summit later this month, presidential chief of staff for policy shared last week. He noted that the two countries made "practical advancements in most pending trade issues," and that "Our chances of clinching the follow-up trade deal have increased after our latest visit to the U.S." He concluded that "we have shared a common view in most issues, but still have to narrow differences in one or two areas."

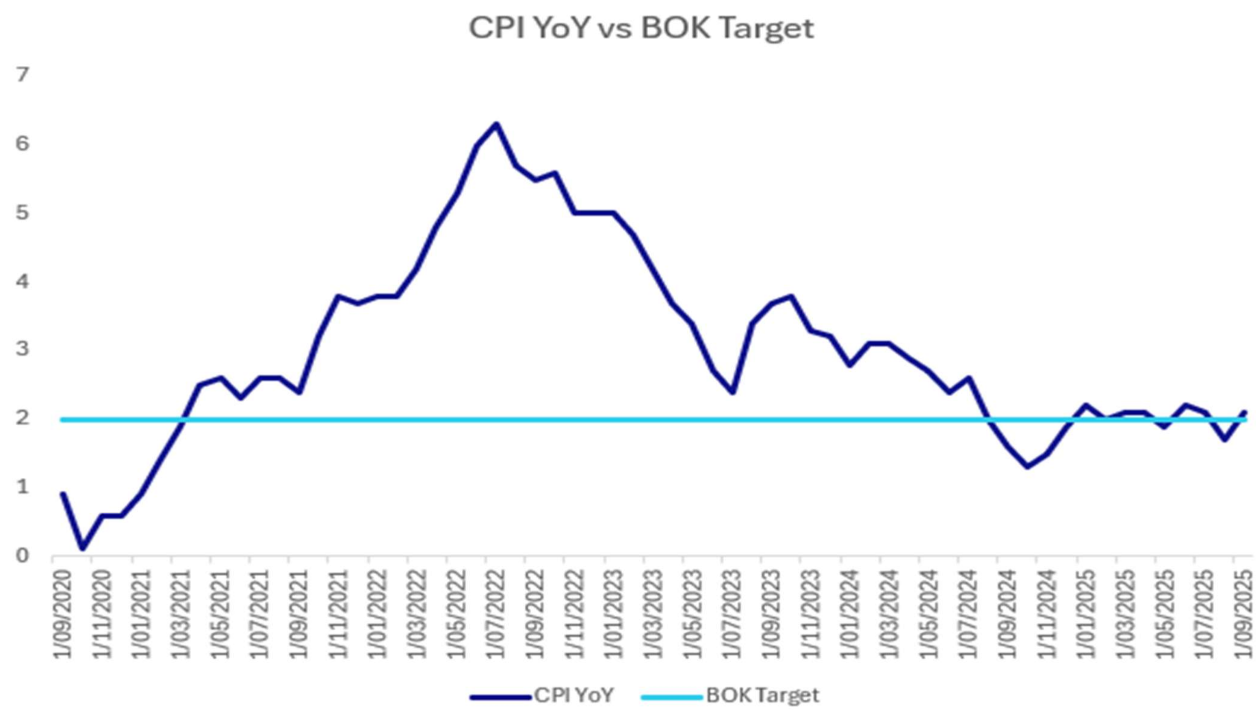
The trade uncertainties have been most visible through the currency with the Won posting losses of -3.4% over the last 3-months, one of the worst performers of its regional peers.

Recently the BOK did revise their growth rate up to 0.9% for 2025, slightly above the May forecast of 0.8%. With the 2026 forecast remaining at 1.6% there is recognition that whilst uncertainty remains as to the path of trade negotiations between China and the US, there are implications for global (and hence Korean) growth.

The BOK pointed to export strength as a key positive for the economy with the September export data supporting that view. Korea's September export numbers beat what were already strong forecasts, after August's poor result. Expanding by +12.7%, it was a huge change from August's +1.2% (revised down) and topped estimates of +7.8% though working day adjustments can be attributed to some of the expansion. Semiconductor growth continues to be a key driver with YoY growth consistently over 20% in each monthly data release. Imports were up strongly also by +8.2%, from +4.1 in August and the resulting trade balance of $9.5bn was the highest in more than 5-years.

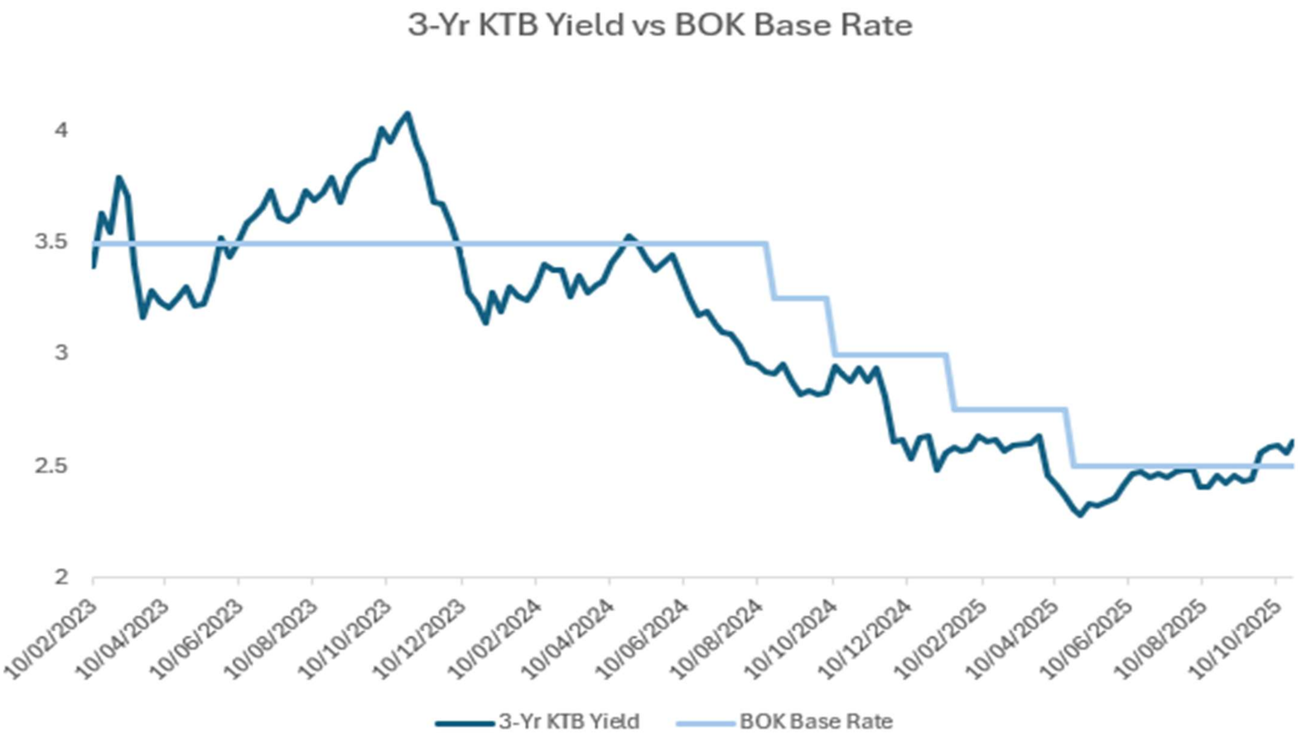


After briefly dipping in August in what was primarily technically driven, CPI YoY moved back above the BOK 2% target in the September release. CPI in September came in at +2.1% YoY and the MoM figure was flat on August at +0.5%. Food prices were up +3.3%YoY and transport +1.2% YoY which saw September core CPI rise 2.0% YoY versus prior +1.3% YoY. Inflation expectations remain anchored around +2.0% given continued downward pressure on oil prices and pose no impediments to future monetary policy moves.



BoK Market Pricing Expectations

- Since October 2024 the Bank of Korea has cut rates four times but in April went on hold, following the release of the initial real estate policy changes by the then new government. The BOK then cut rates in again in May.
- Following the last BOK meeting the 3YR yield widened pushing out to near term highs of 2.63%, and is currently at 2.60% The move higher (and above the base rate) coincides with the various announcements of measures to calm the housing market and suggests the bond market is expecting little at tomorrow's meeting.
- The 10YR government bond yield moved higher in September driven by 10-yr issuance, with lower-than-normal correlation to the move in US yields over that period.
- The bond curve and swaps curve have largely priced out the cuts priced in earlier this year. As at today, the bond curve has no cuts priced in over the next month and -8bps of cuts over the next three.
- The swaps curve doesn't have a full rate cut priced in now over next 12 months, expecting next to no movement in rates.



source: Bloomberg Finance LP / MNI

Market consensus is firmly in favour of a hold with only three of 25 respondents, advocating a cut.

We see compelling reasons to hold, whilst leaving the door open to cut again, though the opportunities may be limited until a sustained softening in house prices occurs.

Monetary Policy Decision

August 28, 2025.

The Monetary Policy Board of the Bank of Korea decided today to leave the Base Rate unchanged at 2.50% for the intermeeting period. With inflation remaining stable, economic growth, while there is still high uncertainty surrounding the economic growth outlook, has shown modest improvement, mainly driven by domestic demand, and movements in housing prices in Seoul and its surrounding areas and in household debt need to be further monitored. The Board, therefore, judged that it is appropriate to maintain the current level of the Base Rate and to assess any changes in domestic and external conditions.

The currently available information suggests that, despite progress made on trade negotiations between the U.S. and major economies, the global economy is expected to gradually slow in growth and experience a divergence in inflation trajectories across countries, as the impact of tariff increases starts to materialize. In global financial markets, long-term U.S. Treasury yields and the U.S. dollar index rose, and then fell due to the heightened expectation of an interest rate cut by the U.S. Federal Reserve. Stock prices in major economies have risen as uncertainty regarding tariff negotiations eased. Looking ahead, the global economy and financial markets will be influenced by developments in trade negotiations between the U.S. and China, by the prospects for product-specific tariffs, and by changes in monetary policies in major economies.

In terms of the domestic economy, despite continued sluggishness in construction investment, growth has improved due to a recovery in consumption and due to a better than expected increase in exports, mainly driven by semiconductors. The increase in the overall number of employed persons has continued, but some major industries, such as manufacturing, have continued to decline. Going forward, domestic demand is expected to sustain a modest recovery, affected by the implementation of a supplementary budget and by an improvement in consumer sentiment. Exports are likely to show favorable movements for some time, but are likely to gradually slow as the impacts of U.S. tariffs expand. Consequently, the growth rate is forecast at 0.9% for this year, slightly above the May forecast of 0.8%. The growth rate for next year is expected to be consistent with the previous forecast of 1.6%. High uncertainty remains along the future path of economic growth concerning trade negotiations between the U.S. and China and concerning the imposition of product-specific tariffs, as well as the pace of recovery in domestic demand.

Inflation has remained stable, with consumer price inflation falling slightly to 2.1% in July, while core inflation (excluding changes in food and energy prices from the CPI) held steady at 2.0%. Short-term inflation expectations among the general public have increased slightly to 2.6% in August from 2.5% in the previous month. Looking ahead, despite rising agricultural, livestock, and fishery prices, inflation is projected to remain at around 2% due to subdued demand-side pressure and due to the stabilization of global oil prices. As a result, consumer price inflation is forecast to be 2.0% for this year, slightly above the May forecast of 1.9%, and core inflation is expected to be consistent with the previous forecast of 1.9%. Next year, consumer price inflation and core inflation are both forecast to be 1.9%, slightly above the previous forecast of 1.8% due to the continuing recovery in consumption. The future path of inflation is likely to be affected by economic conditions at home and abroad, by movements in exchange rates and in global oil prices, and by the government's price stabilization measures.

Financial and foreign exchange markets have generally remained stable. Long-term Korean Treasury bond yields have fluctuated within a narrow range. The upward trend of stock prices has somewhat weakened due to corrective pressure from the increases so far and due to changes in expectations concerning regulatory reforms in the capital market. The Korean won to U.S. dollar exchange rate rose due to expectations that residents' demand for overseas investment funds would continue. The increase in household loans has significantly lessened, affected by the government's household debt measures. In Seoul and its surrounding areas, housing price increases and transaction volumes have decelerated, but the expectations for rising housing prices remain high.

The Board will continue to conduct monetary policy in order to stabilize consumer price inflation at the target level over the medium-term horizon as it monitors economic growth while paying attention to financial stability. The domestic economy has shown some improvement in growth, but uncertainties surrounding the future path of economic growth remain high due to U.S. tariff policies, while inflation remains on a stable trajectory. Regarding financial stability, it is necessary to further assess whether it will remain on a sustained path of stability while housing price appreciation in Seoul and its surrounding areas and household debt growth have moderated, and to remain cautious about the possibility of increased exchange rate volatility. Therefore, the Board will maintain its rate cut stance to mitigate downside risks to economic growth and adjust the timing and pace of any further Base Rate cuts while closely monitoring changes in domestic and external policy conditions and examining the resulting impact on inflation and financial stability.

Sell-Side Analyst Views

Commerz (hold): “On monetary policy, BoK could leave policy rates unchanged at 2.5% at the next meeting on 23 October. Despite subdued inflation and a weakening growth outlook, policymakers may focus on containing financial stability risks. BoK Governor Rhee Chang-yong reiterated in August that further easing could fuel financial stability concerns due to the hot housing market and high household debt. Concerns have intensified in recent weeks as Seoul home prices have begun to re-accelerate. Last week, prices rose 0.3% week-on-week, the fastest since early July, and it marked the fifth consecutive week of accelerating price growth. The uptrend suggested that the cooling measures introduced in June could be losing traction.”

BofA: (**hold**) :” Expect a hold in Oct but with dovish guidance. Combined, with the lingering concerns on weak FX amid trade uncertainties, as well as the reacceleration in housing prices, we expect BoK to hold in Oct. Especially, given the continued efforts in macroprudential measures and recent policy guidance, a policy coordination is required. As a result, we do not expect the BoK will be that comfortable with further easing at least in the upcoming meeting. That said, we still have a high believe that a Nov cut is on the table, given the mounting pressures on growth, especially if we could see progress on both trade talks as well as the housing policy impacts. Hence, a continued dovish stance is expected, and we believe most of the MPC members would open to cut in the upcoming policy forward guidance.”

Barclays (hold): “BoK preview: Perfect storm against a cut…for now. We expect the BoK to hold rates next week, as the board is not convinced of stabilisation in the property market. Renewed concerns about the KRW also warrant a more
cautious approach, in our view. We maintain our forecast for a cut in November, but see risks to our view of a last cut in
2026.”

Goldman Sachs (hold): “The government further tightened real estate measures on October 15. Similar to the first-round of measures announced in late June, the new measures are centered around curbing housing demand through tighter lending restrictions. As the BOK Governor highlighted several times, the MPC does not aim to control housing prices in certain metropolitan areas through policy rate changes though it closely monitors housing prices given their implications for household debt growth. Further tightening in lending regulations will likely continue to constrain household debt growth. Overall, these measures strengthen our view that the BOK is likely to keep its policy rate on hold at 2.5% at its October MPC meeting with dovish guidance for easing in November. The lending restrictions will also reduce funding needs for banks, easing money markets and putting downward pressure on the CD fixing.”

JPMorgan (hold): “we maintain our view of stabilizing headline inflation around the 2% target this year (Figure 4). While fresh farm and oil product prices present two-sided risks, the pace of inflation is being maintained by the prices of core goods and services. At the MPC meeting this month, the

Bank of Korea may be comfortable with the inflation landscape and keep focusing on the balance between growth and financial stability."