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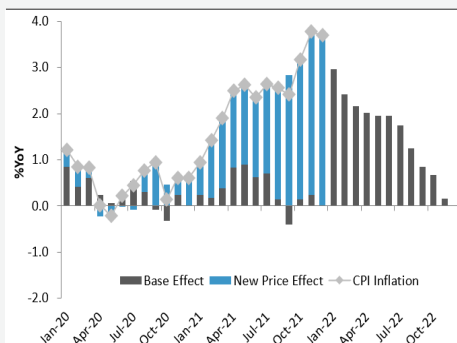
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**Overview**

- The BoK is expected to deliver a third 25bp rate hike on Friday morning, raising its policy rate to 1.25%
- In our opinion, the deeply negative real policy rate provides room for the South Korean central bank to tighten its monetary policy further, when the nation's economic fundamentals remain solid as indicated by a steepening KTB yield curve
- Foreign investors have turned net buyers of South Korean shares this year; Renewed equity inflows are supportive of the KRW, along with sharply rebounding memory chip prices
- We maintain our short TWD/KRW cross spot position, with South Korean exporters expected to sell more dollars ahead of the Lunar New Year (February 1)

**South Korea CPI Inflation**



Source: Bloomberg & Scotiabank FICC Strategy

**A 25bp BoK Rate Hike**

**Asia Overview** — Most EM Asian currencies advanced versus the dollar on Thursday. The SGD edged down, while the JPY gained 0.4% amid a 5bp drop in the 10Y UST yield.

The CNY and CNH closed almost flat. USD/CNH will likely trade between 6.35 and 6.40 at the moment, while facing renewed downward pressure. A much higher-than-expected USD/CNY fixing set Thursday suggests the PBoC manages to keep the yuan exchange rate basically stable. China's inbound non-financial FDI in China rose 14.9% yoy to a record high of CNY 1.15tn in 2021. Several of China's largest banks have become more selective about funding real estate projects by local government financing vehicles (LGFVs). The KRW gained 0.2%. Bank loans to households decreased KRW 0.2tn mom to KRW 1,060.7tn at end-December. The TWD increased 0.1% amid equity inflows. USD/TWD will likely slide to the 27.6 level before long. Taiwan sold TWD 35bn of 20-year government bonds at 1.070% on Thursday, up from 0.749% at the last auction on November 9, 2021.

The INR edged up. USD/INR will likely consolidate around the 74.0 level, near the technically oversold area. India's trade deficit narrowed to USD 2.17bn in December from USD 2.29bn a month ago, with exports surging 38.9% yoy and imports soaring 38.6% yoy. India plans to switch INR 100bn of shorter-maturity government bonds to longer-tenor debt on January 17. The RBI will conduct INR 5tn of 14-day reverse repo auction on Friday. India and the UK will aim to conclude an interim trade deal in the next few months, while a comprehensive free-trade agreement (FTA) is expected in a year's time. The IDR rose about 0.2%. USD/IDR is likely to trade between 14,200 and 14,400 for now. Indonesia will sell IDR 25tn of T-bills and bonds in the January 18 auction. Coordinating Minister for Investment and Maritime Affairs Luhut Panjaitan said on Thursday that Indonesia hasn't lifted a general ban on exports of coal even as it allows resumption of shipments by miners that have complied with the domestic supply obligation policy.

The MYR rose 0.2%. USD/MYR is likely to slide towards the 4.15 level amid resilient oil prices. The PHP advanced 0.3%, with USD/PHP likely to fluctuate between 50.5 and 51.5 at present. Philippine FX reserves rose to USD 108.9bn in December from USD 107.7bn a month earlier. The Philippines' accommodative monetary policy continues to support normalization of local financial market conditions, according to the minutes of the BSP's December 16 rate-setting meeting. The THB jumped 0.5%. USD/THB is likely to head for the 33.0 level, remaining susceptible to the Covid-19 situation. Thailand's consumer confidence rose to 46.2 in December from 44.9 a month ago. Prime Minister Prayut Chan-o-cha on Thursday urged the government to accelerate discussions with manufacturers to freeze fresh food prices. Thailand's corporate bond sales this year may exceed THB 1tn for a second straight year as companies are expected to raise funds for business expansion, according to the Thai Bond Market Association.

Most regional equity indices resided in the green on Thursday. China's SHCOMP index slid 1.17% despite USD 228.7mn of equity inflows, while India's NIFTY50 index increased 0.25%. South Korea's KOSPI index declined 0.35% in spite of USD 95.9mn of stock inflows. In the meantime, Taiwan's TWSE index advanced 0.33% as global funds added to their holdings in local main board shares by USD 631.3mn on Thursday. Malaysia's KLCI index and Indonesia's JCI index closed up 0.40% and 0.17% respectively. Thailand's SET index ended 0.09% higher with foreign investors purchasing a net USD 34.4mn of Thai shares.

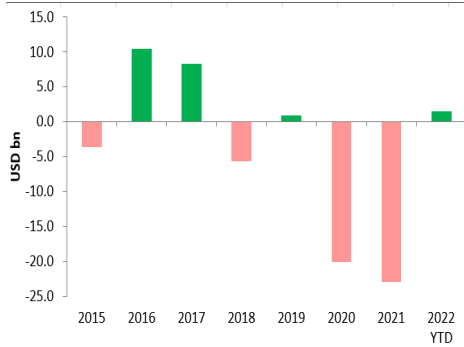
**South Korea** • The BoK is expected to deliver a third 25bp rate hike on Friday morning, raising its policy rate to 1.25%. In our opinion, the deeply negative real policy rate provides room for the South Korean central bank to tighten its monetary policy further, when the nation's economic fundamentals remain solid as indicated by a steepening KTB yield curve.

The export-driven economy will continue expanding amid improving global trade outlook this year, particularly taking into account China's fiscal stimulus package and monetary easing measures.

Foreign investors have turned net buyers of South Korean equities this year, purchasing a net USD 1.53 bn of local shares year-to-date. In 2020 and 2021, they reduced their holdings by USD 20.08 bn and USD 23.01bn respectively.

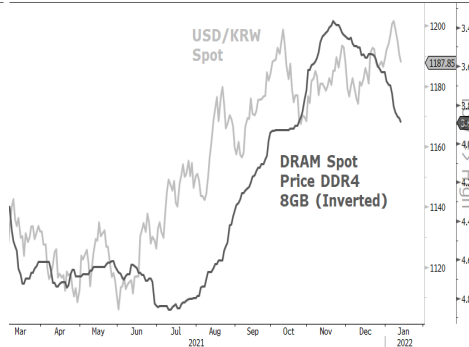
Renewed equity inflows are supportive of the KRW, along with sharply rebounding memory chip prices.

**South Korean Cross-border Equity Inflows**



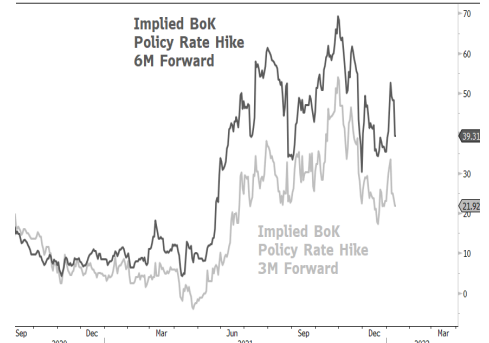
Source: Bloomberg & Scotiabank FICC Strategy

**USD/KRW Spot vs. DRAM Spot Price DDR4 8GB (Inverted)**



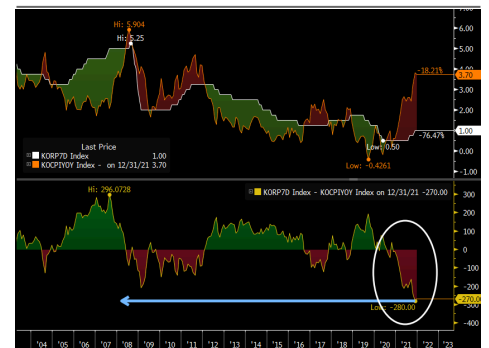
Source: Bloomberg & Scotiabank FICC Strategy

**Implied BoK Policy Rate Hike**



Source: Bloomberg & Scotiabank FICC Strategy

**BoK Real Policy Rate**



Source: Bloomberg & Scotiabank FICC Strategy

Moreover, a proper appreciation in the KRW could help ease imported inflationary pressure. South Korea's exports price index increased 23.5% yoy in December, while import price index jumped 29.7% yoy.

Last but not least, the geopolitical conditions on the Korean Peninsula are expected to stay under control this year, as China will hold the 20th Party Congress likely in October/November while the US will hold midterm elections set for November 8. Chinese commerce ministry spokeswoman Shu Jueting said in Beijing on Thursday that US-China trade teams are in normal communication, hoping the US will create a favorable atmosphere and conditions for expanding trade cooperation between the two sides.

**USD/KRW will likely head for the 1,180 level when approaching the month end and the Lunar New Year that falls on February 1.**

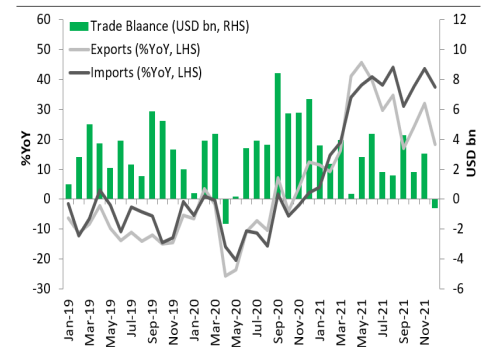
**We maintain our short TWD/KRW cross spot position (Entry: 43.5 on January 7; Target: 42.0; Stop: 44.2).**

**3-10Y KTB Yield Curve**



Source: Bloomberg & Scotiabank FICC Strategy

**South Korea Exports, Imports and Trade Balance**



Source: Bloomberg & Scotiabank FICC Strategy

## TODAY'S CALENDAR

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
~09:00	KR	BOK	BoK 7-Day Repo Rate	Jan 14	1.25%		1.00%	high
09:30	AU	CREDIT	Home Loans Value MoM	Nov	0.4%		-2.5%	med-high
~11:00	CN	TRADE	Exports YoY	Dec	20.0%		22.0%	med-high
~11:00	CN	TRADE	Imports YoY	Dec	27.8%		31.7%	med-high
~11:00	CN	TRADE	Trade Balance	Dec	\$73.95bn		\$71.72bn	med-high
15:30	TH	DATA	Foreign Reserves	Jan 7			\$246.0bn	med
15:30	TH	DATA	Forward Contracts	Jan 7			\$33.2bn	med
20:00	IN	INFL.	WPI YoY	Dec	13.82%		14.23%	med
09:30 on Jan 15	CN	DATA	New Home Prices MoM	Dec			-0.33%	med-high

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