PM Datanote: Exports, Korea, September

In one line: Korea's resilient export growth continues on a working day adjusted basis in September.

-Korea: Export growth was 7.5% y/y in September from 11.2% in August. Consensus was 6.4%

Korean full-month unadjusted exports grew by 7.5% y/y in September, slowing from a downwardly revised

11.2% in August but beating market expectations of 6.4%. Note that with this year's Chuseok holiday falling at the beginning of the third week, as a result there was one fewer working day in September compared to last year. On a working-day adjusted basis, exports actually grew by 13.1% in September, slightly slower than the 13.6% seen in August.

By geographical destination, shipments to key traditional G3 markets eased to 8.7% y/y in September on a WDA basis, compared to 14.5% in August. Of these, exports to the US were weaker at 8.8% versus 13.4%, adding 1.6pp to headline growth, while exports to the EU and Japan also slowed, to 10.5% and 4.3% respectively, from 18.5% and 8.8% a month ago, making a combined contribution of 1.3pp versus 2.4pp in August. At the other end of the scale, exports to China continued to improve, rising by 11.7% in September versus 10.1% in August, adding 2.4pp compared to 2.0pp a month ago. Exports to ASEAN also grew faster at 5.8% versus 3.5%, contributing 0.4pp more to overall export growth in September than in August, at 1.0pp. In fact, the slack from key traditional markets was largely picked up by rising shipments to the rest of the world, which grew at a double-digit pace of 25.0% compared to 17.8% a month ago, lifting overall growth by 6.9pp, almost 2.0pp higher than previously.

By commodities, semiconductor

exports remained very resilient and continued to drive headline growth in September, rising by 44.2% y/y on a WDA basis, versus 41.7% in August, responsible for 8.0pp or 61.3% of headline growth this month. However, if SSDs and MCPs are included, then total chip-related exports grew by 57.4% versus 58.9% a month ago, adding 13.1pp to the headline. Car-related export growth, which includes cars, car parts, and lithium batteries, turned positive at 5.6%, compared to a fall of -2.1% in the previous month, adding 0.8pp. Within that, EV export growth fell at a lesser pace (-15.0% vs -48.8% in August), leading to a stronger rise in vehicle shipments (10.3% vs -2.3%). Export growth, excluding cyclical items like ships, petroleum, and semiconductors, rose faster at 5.9% in September versus 5.4% a month ago, adding 4.2pp. Other key exports, such as mobile devices, home appliances, OLEDs, and computers, all grew at various paces, at 25.1% vs 53.6%, -9.4% vs -2.4%, 4.0% vs -1.2%, and 143.8% vs

188.9%, respectively. These four key export products made a combined contribution of 2.4pp to growth in September, down from 3.1pp in August.

In all, we think Korea's export recovery will continue for the rest of the year, driven mainly by the global chip cycle. Exports are expected to drive Korea's economic growth in H2, offsetting weaker domestic demand conditions. On a geographical basis, the slowdown in exports to traditional G3 markets due to the high base from last year was offset by accelerating growth to China and the rest of the world. Regarding monetary policy, our base case is for the BoK to start cutting interest rates by 25bp in its October meeting, with a chance that the first cut could be delayed to November due to financial stability concerns, as mortgage loans continued to rise in tandem with Seoul apartment prices. On balance, we believe the MPB reaction function on rates leans more on external factors, such as the timing of the Fed's cut and its impact on the KRW. With the Fed paving the way and starting with a 50bp cut in September, it provides more wiggle room for the BoK to ease in October.