Korea Watch

How may the Fed cycle impact the BoK this time around?

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GEM Economics
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A hawkish Fed may have contributed to a cautious BoK

The BoK concluded the latest Feb MPC meeting with a cautious stance. Along with uncertainties in domestic conditions, the committee flags the hawkish Fed as one of the key policy concerns. Historically, the Fed and BoK cycles have been closely linked (Exhibit 3), and Korean rates have one of the highest correlations with US treasury yields among Asian EMs (Exhibit 4). Given the recent sharp repricing of Fed cut expectations, a natural question for Korean watchers is, will the hawkish Fed push the BoK to normalize later?

Guidance from history: easing cycles in Korea and US

In this piece, we have reviewed and looked into the past six BoK easing cycles along with the Fed cycle (since 2000) and hope to shed light on the reaction function of the BoK under the current macro backdrop. In summary, we see that BoK places a higher weight on domestic factors, especially growth, than on the Fed policy.

Specifically, "downside risks in growth" were cited in the meeting minutes as a major reason for easing in every cycle, and inflation also played a key determinant to warrant the cut, while the external position also played a role in BoK's decision to a certain extent. In terms of the Fed policy's impact, five out of six BoK easing cycles were associated with the Fed cycle, but those policy reactions were more of responses to the same global shocks. The BoK only followed the Fed in three cycles, if measured by the exact time window of easing periods. A simple conclusion is that the BoK may have greater autonomy than the market believes, in our view.

Improving C/A to support autonomy, disinflation is key

Arguably, the current macro backdrop is quite different from those in the past during the start of historical easing cycles, given the improving economic growth and relatively high inflation. Regarding the impact of the Fed policy, if history can be any reference, when C/A surplus is improving, the BoK tends to have greater autonomy, especially when the FX is largely stable. Hence, we do agree with Governor Rhee's view that "Korea's monetary policy does not automatically follow the US policy." So, what would be the vital determinant in the near term? By reviewing the past seven MPC meeting minutes and counting the keywords (Exhibit 15), the current committee seems to place an even stronger focus on inflation amid growth stabilization, in our view. Hence, confirming the disinflationary trend is the key for BoK to start the easing cycle.

First dissenter & MPC members change - key to watch

All combined, we expect the first cut will likely be introduced in 3Q, after seeing a lower CPI print in mid-year. The evolvement of potential dissenting votes, as well as the new MPC members, remain the key to watch. Also, as long as the Fed does not deliver a further hawkish tone in the coming meetings (even if they do not cut by June), we believe it will not have a meaningful impact on the BoK's rate decisions. We expect two cuts (25bp each) in 3Q and 4Q, and two more cuts in 1H25, with a terminal rate of 2.5%.

BoK: Bank of Korea

MPC: Monetary Policy Committee

Fed: US Federal Reserve

C/A: Current Account

FOMC: US Federal Open Market Committee

GFC: Global Financial Crisis

A hawkish Fed may have contributed to a cautious BoK

BoK keeps its cautious stance in Feb meeting…

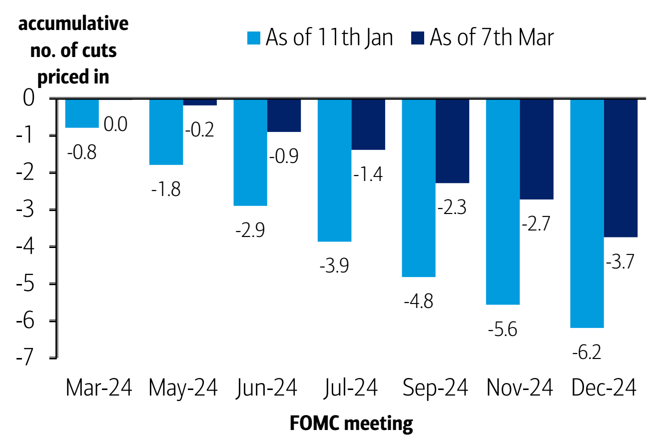
On Feb 22, the BoK concluded the latest MPC meeting with a cautious stance. As widely expected, it kept the policy rate unchanged at 3.5%, for the ninth straight meeting since Feb 2023. Although one member is now open to a rate cut, the rest of them are still in favor of holding rates in the next three months. In the statement and press conference, the committee highlights the elevated uncertainties surrounding the macro environment, notably inflation and external conditions, driving the BoK to keep a restrictive stance for a sufficiently long period of time.

…amid weakening expectation of an early Fed cut

In addition to the uncertainties in the domestic conditions, the committee flags the hawkish Fed (which recently drove the US yields and USD higher) as one of the key policy concerns. Indeed, such concern was frequently discussed among members in previous BoK meetings (revealed by the Minutes). Admittedly, Fed narratives and market pricing turned rapidly in the past months to the stronger-than-expected economic data. After the general softer economic prints in Dec, both inflation and labor market data turned stronger than expected recently.

As a result, the market consensus on Fed rate cuts has sharply reversed, from a 100%-implied probability of a cut in May to only around 20% now (Exhibit 1). Our US economists believe a cut in March is now firmly off the table and the likelihood of a cut in May has also significantly reduced (see: [US Watch: January CPI Inflation: detour from disinflation]).

Exhibit 1: Market pricing of Fed Fund Rates
Market now prices in much less Fed cuts for 2024 after strong data



Source: Bloomberg, BofA Global Research

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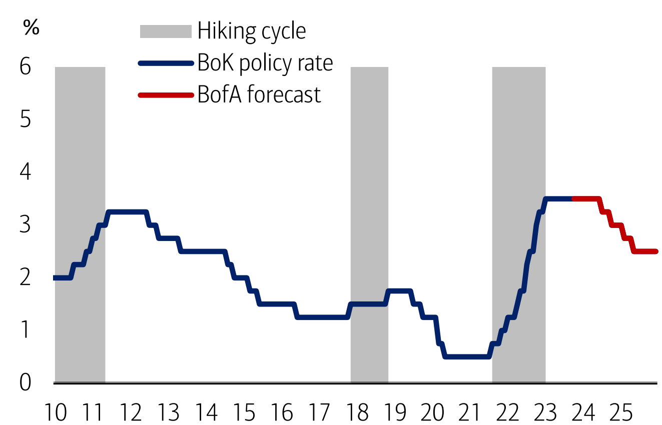
Exhibit 2: Policy rate forecast
We expect rate cut start in 3Q24 and reach 2.5% in 2Q25



Source: Haver, BofA Global Research estimates

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Will this relatively hawkish Fed tone affect the BoK's timing of easing? How have the past Fed easing cycles affected BoK monetary decisions? In this piece, we have reviewed and looked into the past six BoK easing cycles, and hope to shed light on the reaction function of the BoK under the current macro backdrop.

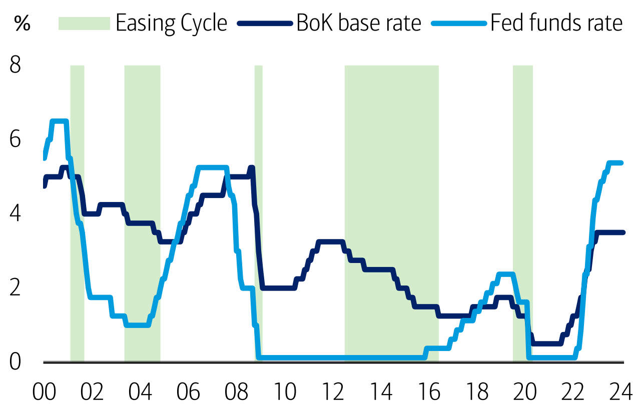
Guidance from the history: easing cycles in Korea and US

Historically, the BoK moves cautiously, especially when it comes to changing its policy direction. Given the sharp repricing in the Fed policy path, a natural question for Korea watchers is how the Fed path would affect Korea's monetary policy decisions. Specifically, if the Fed decides to ease later rather than sooner (assume that in 3Q), would it also push the BoK to normalize later?

Apparently, looking at the historical monetary cycles, the BoK cycle and Fed cycle have been closely linked (Exhibit 3), as well as the long-end rates (see also: Korea treasury bonds – 'high-beta', yet favorable domestic backdrop), one of the most Fed-sensitive rates in Asia. This is hardly surprising to us as Korea is a small and open economy, and any changes in the Fed funds rate would influence the rest through the capital flow and FX around the world, pushing these small and open economies to go in the same direction. In addition, the Fed's easing cycles have been leading BoK cycles on several occasions. This raised further questions on the BoK's autonomy from the most influential central bank in the world.

Exhibit 3: Policy rates in Korea and the US

The Fed funds rates and BoK base rates exhibit strong positive correlation



Source: Haver, BofA Global Research

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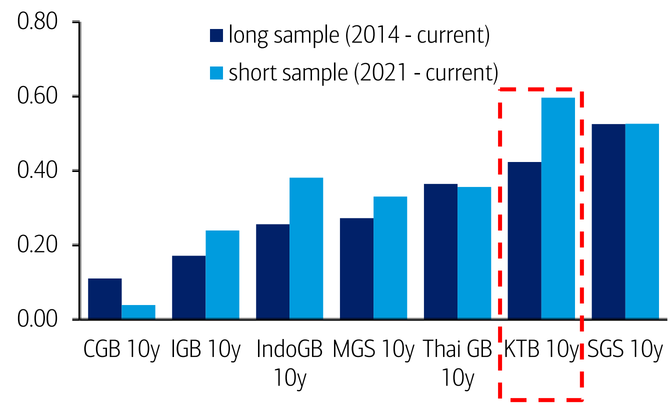
Exhibit 4: EM Asia government bonds' beta coefficient on 10y UST

KTB has the highest sensitivity to changes in UST yields



Source: Bloomberg, BofA Global Research

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Yet, we doubt if the high correlation represents causation (i.e. BoK follows Fed to cut). In the below section, we have examined each of the BoK easing cycle during the past two decades (six times in total) to assess the influence of Fed policy rates on BoK's decision. We look at the change in macro variables as well as the narratives from the BoK in each policy decision.

Exhibit 5: A history of BoK and Fed easing cycles

Previous cycles suggest that the BoK has been more independent of Fed than what widely perceived

BoK: Start date	Cumulative change in BoK rate (bps)	# of hikes/cuts	Duration (month)	Rationale of the BoK	Fed: Start date	Duration (month)	Cumulative change in Fed Fund Rate
Feb-01	-125 (5.25 to 4.00)	4	8	To guard against economic slowdown partially driven by burst of dot-com bubble	Jan-01	12	-475 (6.50 to 1.75)
May-03	-100 (4.25 to 3.25)	4	18	To ease downtrend in growth despite higher oil price in late 2004	Nov-02	8	-75 (1.75 to 1.00)
Oct-08	-325 (5.25 to 2.00)	5	4	To guard against the disruption by Global Financial Crisis	Sep-07	16	-512.5 (5.25 to 0.125)
Jul-12	-200 (3.25 to 1.25)	8	47	To boost growth amid below-target inflation	-	-	-
Jul-19	-50 (1.75 to 1.25)	2	4	To ease growth concerns amid China-US trade tensions and low inflation	Aug-19	3	-75 (2.375 to 1.625)
Mar-20	-75 (1.25 to 0.50)	2	3	To guard against disruption on growth and financial stability by COVID	Mar-20	1	-150 (1.625 to 0.125)

Source: BofA Global Research

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Catalysts and drivers: A review of the past six easing cycle

We examined the BoK's historical policy easing decisions to discern indications with respect to the timing and magnitude of its future policy adjustments.

As highlighted above, since 2000, there were six monetary easing cycles for Korea (14 months on average), and the peak holding (at cycle low) period was between 8-17 months.

I. Feb – Sep 2001: Global-led growth slowdown amid above-target inflation

In 2001, the BoK conducted four rounds of policy rate cuts. It was a year of weak global growth, led by the marked slowdown in the US (following the burst of the dot-com bubble) and stalling recovery in Japan. As a result, the Fed kickstarted the easing cycle to counter the rapid economic slowing. This gave global central banks a chance to look at business conditions and examine the feasibility of reducing rates.

In Korea, the first sign of the growth downturn emerged in late 2000 when export growth rapidly slowed, coupled with emerging signs of a property sector slowdown. But given that inflation was above the target (of 3%) and fiscal policy was loose, the BoK only reduced the policy rate by 25bps (to 5.0%) in 1H01. As the economic downturn deepened while export growth contracted at a double-digit rate, the central bank eased further by a cumulative of 100bp. Eventually, the 9/11 terrorist attacks on the U.S. and plummeting global sentiment prompted the BoK to ease by 50bp in Sep.

***Conclusion*:** the easing in 2001 was largely due to weak growth at home and abroad, while inflation was running above the target for the entire period.

Exhibit 6: Macro backdrop in first easing cycle (2001)
Global-led growth slowdown amid above-target inflation

		Growth			Prices			External		
BoK cut date	Fed cut date	Output gap	Mfg PMI	Global export	Headline inflation	Core inflation	Property price	Current account	Policy rate differential (BoK - Fed)	USD/KRW
		%	Index	% yoy	% yoy	% yoy	% yoy	% of GDP	bps	% yoy
Feb-01	Jan-01	-1.3	-	3.2	3.6	3.4	-0.3	1.2	-50	-11.0

Source: Haver, BofA Global Research estimates

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II. May 2003 – Nov 2004: Multiple shocks on growth

From early 2003, growth dropped notably amid uncertainty surrounding the US-Iraq war, and its impact on international oil prices, as suggested in the negative output gap of (-2.2%, Exhibit 7). Meanwhile, concerns loomed on the negative impact of the SARS pandemic's spread, the North Korean nuclear issue, and the drop in private consumption due to an elevated debt burden. As a result, the BoK lowered the policy rate by 25bp each in May and July. Meanwhile, inflation was close to the target.

The MPC kept the policy rate unchanged until lowering it by 25bp in Aug 2004, as economic activities continued to contract quite excessively. Private consumption shrank and facility investment was at a depressed level. However, higher oil prices prevented the BoK to ease further, as inflation still remained at a relatively elevated level. It was until Nov when the MPC once again lowered the policy rate by 25bp (to 3.25%), as economic activities showed no signs of picking up while inflation risks gradually receded.

***Conclusion*:** the easing between 2003 and 2004 had little to do with the Fed, although the Fed has started its cut (of 50bp) in Nov 2002, and cut again (of 25bp) in June 2004. The easing cycle was mainly due to growth headwinds due to external shocks, while inflation remained largely contained.

Exhibit 7: Macro backdrop in second easing cycle (2003)
Multiple shocks on growth during 2003-2004

		Growth			Prices			External		
BoK cut date	Fed cut date	Output gap	Mfg PMI	Global export	Headline inflation	Core inflation	Property price	Current account	Policy rate differential (BoK - Fed)	USD/KRW
		%	Index	% yoy	% yoy	% yoy	% yoy	% of GDP	bps	% yoy
May-03	Nov-02	-2.2	-	15.5	3.2	3.4	10.4	0.6	275	5.2

Source: Haver, BofA Global Research estimates

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III. Oct 2008 – Feb 2009: The sharp contraction in everything during GFC

Similar to central banks around the world, the BoK cut aggressively during late 2008 and 2009 to ward off the excessive and severe impact of the Global Financial Crisis.

This time around, the Fed has started its rate cut in Sep 2007, by 50bps, then cut consecutively to Apr 2008 (by 325bps). While in the meantime, due to the high domestic inflation, Korea has hiked once (of 25bp, in Aug 2008) after the Fed's cuts.

Afterwards, since the global financial crisis (GFC) began in Sep 2008, global growth and inflation backdrop turned severe rapidly, while global financial markets were in turmoil. In Korea, exports rapidly dropped to a negative double-digit rate while domestic demand sharply weakened. Inflation was also quickly brought back to below-target as international oil dropped by more than 60%. Volatility in equity and FX markets sparked. Credit markets were largely dysfunctional.

As a result, the BoK brought the policy rate down substantially from 5.25% to 2.00% between Oct 2008 and 2009, to minimize the negative global (and US) spillover to domestic real economy and financial markets. There were also numerous liquidity support measures to different business and financial entities coupled with other emergency initiatives. The easing cycle in Korea was preceded by the Fed easing cycle, especially after the GFC began, where the Fed has aggressively cut its rate by 187.5bp to 0.125% (to effectively zero lower bound) and started quantitative easing.

***Conclusion*:** weak growth, weak inflation and elevated risks in financial stability all contributed to this substantial easing cycle. The BoK was initially largely immune from the Fed's monetary cycle given the high inflation prints. While in a later stage, given the growth turmoil, the easing from the BoK and the Fed synchronized in response to the common growth shocks.

Exhibit 8: Macro backdrop in third easing cycle (2008)
Chronic below-target inflation & subdued growth

		Growth			Prices			External		
BoK cut date	Fed cut date	Output gap	Mfg PMI	Global export	Headline inflation	Core inflation	Property price	Current account	Policy rate differential (BoK - Fed)	USD/KRW
		%	Index	% yoy	% yoy	% yoy	% yoy	% of GDP	bps	% yoy
Oct-08	Sep-07	-4.7	43.0	3.8	4.8	4.0	4.7	4.5	325	-44.9

Source: Haver, BofA Global Research estimates

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IV. Jun 2012 – Jun 2016: Chronic below-target inflation & subdued growth

The long easing cycle between 2012 and 2016 were characterized by a backdrop of weak global growth, sluggish export performance and subdued inflation.

After two years of cyclical recovery in 2010 and 2011, the BoK projected output gap would remain below potential level while inflation to remain below target (below 2%) for considerable of time as of 2H12, because domestic activity turned much more deeply subdued owing to the Euro area fiscal crisis and slowdown in major trading partners. As a result, the BoK reduced policy rate by 25bp in July and October respectively, to 2.75%.

They were followed by two more 25bp cuts in 2014 as growth remained sluggish and below-target inflation (below 1.5%).

In 2015, the moderation in growth and disinflation were exacerbated (inflation to below 1%) by slow growth in China and falling major commodity prices, which prompted the BoK to take two more rate cuts in 1H15. The easing cycle ended by a final cut (to 1.25%) in Jun 2016.

Exhibit 8: Macro backdrop in fourth easing cycle (2012)
Chronical below-target inflation & subdued growth

		Growth			Prices			External		
BoK cut date	Fed cut date	Output gap	Mfg PMI	Global export	Headline inflation	Core inflation	Property price	Current account	Policy rate differential (BoK - Fed)	USD/KRW
		%	Index	% yoy	% yoy	% yoy	% yoy	% of GDP	bps	% yoy
Jul-12	-	-0.9	47.2	-3.2	1.5	1.2	2.6	4.3	288	-7.9

Source: Haver, BofA Global Research estimates

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***Conclusion*:** The multi-year easing cycle was likely driven by both inflation and growth, with former to a larger extent. By our estimates, output gap averaged -0.3% during this period while inflation was 1% below target on average. During this period, Fed has not cut further as policy rate already reached the lower bound.

V. Jul – Oct 2019: Trade tensions-led slowdown amid sustained weak inflation

It was a short easing cycle in 2019, only between July and October and for only 50bp cut. During this period, domestic growth slowed amid rising geopolitical risks, predominantly China-US trade war. At the same time, inflationary pressures remained muted with inflation around 1% below target. This short easing cycle coincided with that in the US, but the Fed started the cycle one month later than the BoK.

***Conclusion*:** We believe the concerted cuts by the BoK and the Fed largely reflected the same responses to growth shock as global exports has been sluggish. However, the low inflation prints domestically for Korea had also warranted the easing in monetary policy.

Exhibit 9: Macro backdrop in fifth easing cycle (2019)
Trade tensions-led slowdown amid sustained weak inflation

		Growth			Prices			External		
BoK cut date	Fed cut date	Output gap	Mfg PMI	Global export	Headline inflation	Core inflation	Property price	Current account	Policy rate differential (BoK - Fed)	USD/KRW
		%	Index	% yoy	% yoy	% yoy	% yoy	% of GDP	bps	% yoy
Jul-19	Aug-19	1.8	47.3	-1.0	0.6	0.9	1.5	4.1	-88	-4.7

Source: Haver, BofA Global Research estimates
Note: The output gap during this period was mechanically pushed up by deep contraction in 1Q20

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VI. Mar – May 2020: A halt in economic activity during the COVID pandemic

The unprecedented pandemic brought a major disruption to activities around the globe. The pandemic broke out in early 2020 with surging infections, and economic activities basically came to a halt while financial conditions sharply deteriorated. Meanwhile, inflation almost entered negative territory. As a result, the BoK held a special meeting in March at which it lowered policy rate by 50bp to 0.75%. In the same month, the Fed also cut policy rate by 150bp, the largest move in a single month.

Despite the cut, economic conditions deteriorated further in 2Q as pandemic continued to spread. The plummeting commodity prices also continued to drag the headline CPI. Therefore, the BoK conducted another 25bp cut in May, with a terminal rate at 0.5%.

***Conclusion*:** It is once again a global shock on growth and inflation that forced the BoK and Fed (with rest of the world) to ease policy rates. We believe growth factor played a bigger part in BoK decision this round as the output gap dropped to -6% in 2Q, the largest negative gap in a single quarter.

Exhibit 10: Macro backdrop in sixth easing cycle (2020)
A halt in economic activity during the COVID pandemic

		Growth			Prices			External		
BoK cut date	Fed cut date	Output gap	Mfg PMI	Global export	Headline inflation	Core inflation	Property price	Current account	Policy rate differential (BoK - Fed)	USD/KRW
		%	Index	% yoy	% yoy	% yoy	% yoy	% of GDP	bps	% yoy
Mar-20	Mar-20	-0.9	44.2	-10.7	0.8	0.2	1.8	4.4	63	-7.9

Source: Haver, BofA Global Research estimates

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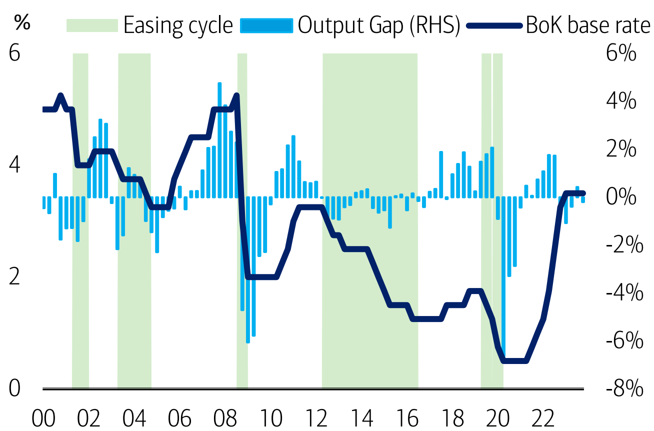
Quick take from the past cycles: Domestic factors dominate Fed policy

In our view, the previous cycles suggest that the BoK places a higher weight on domestic factors, especially growth, compared with Fed policy:

- **Growth concern is the predominant factor.** "Downside risks in growth" was cited in the BoK meeting minutes as the major reason for policy easing in every cycle, regardless of whether it is due to external shocks or domestic cyclical slowdown. In 2001 and 2008, the BoK chose to cut rates even inflation was trending at above target rate, suggesting that growth is the overriding factor in the policy reaction function.

- **Inflation also played as key determinants to warrant the cut.** By BoK's mandate, inflation serves as another important indicator. When growth concerns have been less worrying, BoK will utilize its monetary tool in restoring inflation. Specifically, "below trend inflation" was quoted as the reason for the two easing cycles in 2010s, when the economy ran a persistently low inflation.

Exhibit 11: Output gap and policy rate
Easing cycles in Korea were largely driven by growth factor



Source: Haver, BofA Global Research estimates

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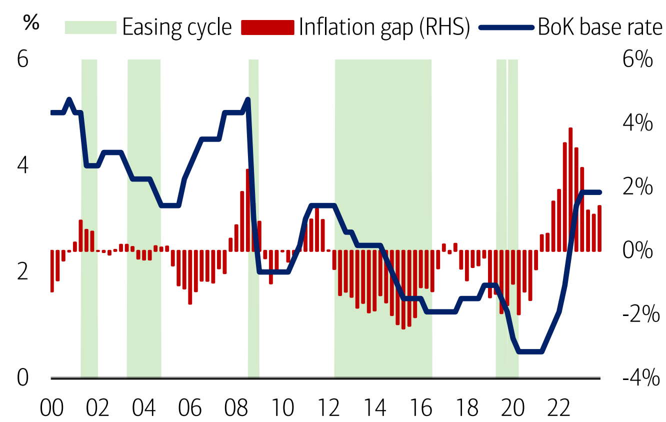
Exhibit 12: Inflation gap[1] and policy rate
Below-target Inflation was part of the reasons for easing cycles in 2010s



Source: Haver, BofA Global Research estimates

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- **External position played a role in BoK's decision to a certain extent**. For example, in 2003, the BoK stated that "favorable evolution of the current account" provided room for policy easing amid a contraction in economic activities. In the easing cycles post-GFC, they were kickstarted with the C/A reaching 4% of GDP or above (after seasonal adjustment).

[1] Inflation gap is defined as difference between actual inflation and target inflation. Core CPI was used as policy target before 2007, and it has changed to headline CPI since then.

- **BoK has been more independent of the Fed policy.** On the other hand, the BoK has been more independent of Fed policy than what was widely perceived, in our view. Although 5 out of 6 the easing cycles were associated with the Fed cycle, these policy reactions were more of responses to the same global shocks (that were faced by the Fed), rather than the BoK following the Fed (by exact time of easing periods, BoK followed in 3 out of 6 cycles). Of course, on some occasions, the initial cut by the Fed created a favorable room for the BoK to cut, especially when GDP growth weakened in Korea. However, we do believe BoK had relatively more autonomy in past easing cycles when there was an improvement in the current account (in 2012, 2019 and 2020).

Implications for the current cycle

How current macro backdrop is similar/different from previous cycles?

Arguably, the current macro backdrop is quite different from those in the past during the start of historical easing cycles:

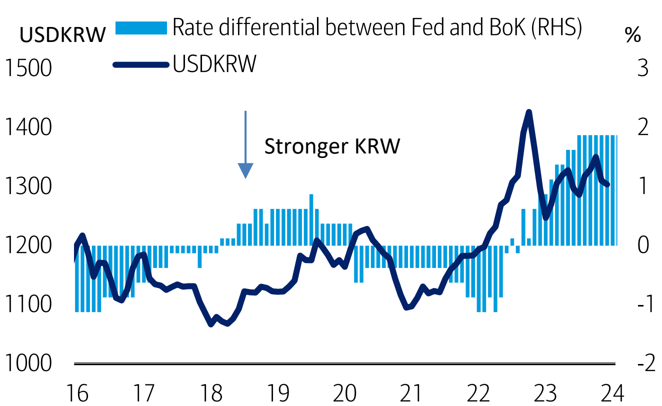
Domestically, **growth** is stronger than in an average easing cycle, as exports have been on an uptrend (vs mostly downtrend or weak growth historically), although the domestic consumption still remained weak. In our view, growth shall gradually recover to the trend level, let by a solid export cycle (see also: Year Ahead 2024: Export-led cyclical recovery on the way). We expect growth to rebound to 2.3% in 2024 from 1.4% in 2023, closing the output gap existing since the pandemic.

Meanwhile, **inflation** has been above-target for a more extended period in this cycle, compared to the below-trend rate in the last decade. Merely going by the historical numbers and policy changes provide us with little clues on the timing of first cut. That said, given the inflation target has been set at 2%, we believe the BoK will anchor this target and to ease the monetary condition before the CPI inflation to fully moderate to the target level. Hence, we see the disinflation trend (headline CPI inflation to reach sub-2.5% by mid year) shall offer a favorable condition for easing from 3Q.

On the other hand, **external conditions** seem to support policy easing more this time. The currency has been supported by sustained foreign inflow into equity markets, owing to the frenzy in AI and the boost from introduction of Corporate Value Up Program (Exhibit 14). Also, we expect the trade surplus to further strength in 2024, reducing the pressure from the dollar.

Exhibit 13: Policy rate differential and USDKRW

The record high policy differential has not led to sustained depreciation in KRW against USD...



Source: Haver, BofA Global Research

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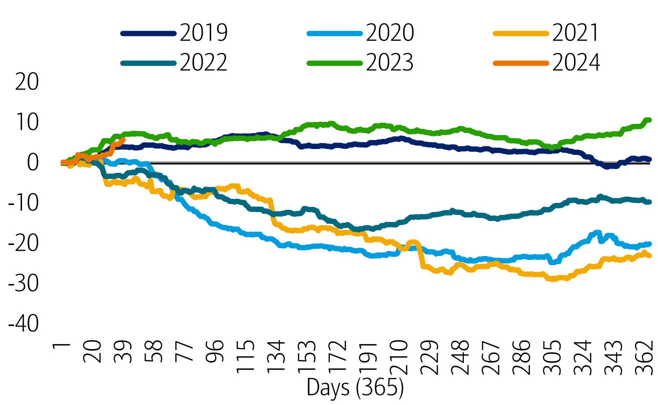
Exhibit 14: Year-to-date net inflows into Korea equities

...as KRW is being supported by strong foreign inflow (and stronger trade surplus)



Source: CEIC, BofA Global Research

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BoK should have certain autonomy from the Fed this time around

As highlighted, BoK did not follow the Fed in every cycle (Exhibit 5). Also, if history can be any reference, when current account surplus was improving, the BoK tended to have greater autonomy, especially when the FX was largely stable. This time around, although the rate differential still at a historical high level (Exhibit 13), USDKRW is in general traded in the range bound, and we see the current account has improved in 8 consecutive months. Specifically, we expect the current account surplus to improve to 2.7% of the GDP this year (see also: Korea Chartbook), and this would alleviate the direct shock of the high rate differentials, in our view.

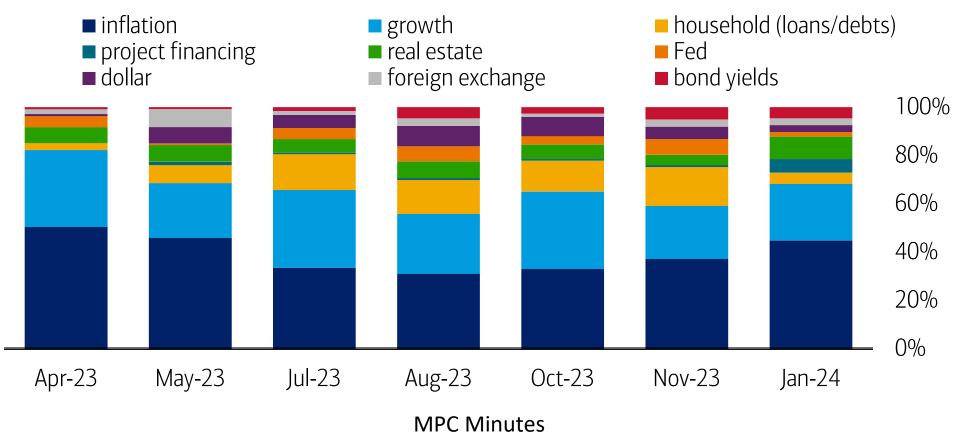
In the latest press conference after the Feb MPC meeting, when asked about the impact of Fed policy to the BoK, Governor Rhee said that “Korea monetary does not automatically follow US policy, and is not ruling out the possibility of cutting before the Fed.” In short, we do agree with Governor Rhee in this round of the easing cycle and see the potential easing of the Fed to provide only a favorable external conditions for the BoK to ease, rather than being a precondition.

Inflation being the key determinant – a clue from the MPC meeting minutes

Compared to the previous MPCs, the current committee seems to place an even stronger focus on inflation amid growth stabilization, in our view.

When conducting a word-counting exercise on the previous MPC Minutes, in absolute level terms, “inflation” is an extensively discussed factor in the past seven meetings, followed by growth, household loans and real estate. External factors such as “Fed,” “exchange rates,” “bond yields” are also discussed but not very extensively.

Exhibit 15: Key words counting in previous MPC Minutes
Rising importance of inflation factor in MPC meetings



Source: BoK, BofA Global Research estimates

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In particular, we see that the committee is highly alert to premature easing at a time disinflation path is not solid. Such view is clearly revealed in a very recent BoK’s working paper “*Bringing back prices stability: Lessons and policy implications from past experience*”. The team argues that, judging from the past episodes of high inflation in major economies and Korea, the so-called ‘last-mile risks’ still remain on our way to bringing back price stability. Specifically, looking at expected inflation and the distribution of inflation by item, it appears that some momentum for price adjustment is yet to die out. Also, additional cost shocks remain as an ongoing risk along the way.

Hence, we do see inflation as the key determinant factor for the BoK when considering when to ease. And, as argued, we see the disinflation trend itself as a more important precondition to warrant the start of the cutting cycle, rather than the hardline of 2% been reached.

The first dissenter and the new joiner of the MPC are the key to watch

Last but not least, the dynamics within MPC meeting provide valuable signals of a policy turn as well. Specifically, we shall watch out for the first dissenter in the MPC meeting calling for a cut.

Based on our analysis of past 15 years of dissent vote records (Exhibit 16), we find that for most of the time, the BoK remained cautious in the following 2-3 meetings since the first dissent vote. Also, the number of dissenters matters. In 3 out of the 4 occasions below, after 2 dissenter votes, the MPC would decide to ease in the subsequent meeting.

Exhibit 16: Does dissenting vote lead and signal future monetary policy?
On average, it takes 2.4 meetings for a policy turn after the first dissenter

Dissent vote case study	Month(s) took for cut/hike	M	M+1	M+2	M+3	M+4	M+5
EASING CYCLE	**2.4**						
Case 1: 2009 Mar	-						
# of dissenting votes		1	1				
Case 2: 2013 Jan	4						
# of dissenting votes		1	1	1	2	**-25bp**	
Case 3: 2014 Jul	1						
# of dissenting votes		1	**-25bp**	1	**-25bp**		
Case 4: 2015 Mar	2						
# of dissenting votes		**-25bp**	**1**	1	**-25bp**		
Case 5: 2016 Feb	4						
# of dissenting votes		1	1	1	0	**-25bp**	
Case 6: 2019 May	1						
# of dissenting votes		1	N/A	**-25bp**	1	N/A	**-25bp**
Case 7: 2019 Nov	4						
# of dissenting votes		1	N/A	2	2	**-50bp**	
Case 7: 2020 Apr	1						
# of dissenting votes		2	**-25bp**				

Source: BoK, BofA Global Research estimates
Note: N/A means no meeting for that particular month

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In the Feb meeting, one member was open to rate cut, but no dissenter appeared yet. Going ahead, we expect more members will be open to cut or dissent vote/s in the MPC meetings in Apr-May), rather than an actual cut decision. Another important to watch is the potential new MPC members after the April meeting. The two MPC members, Yoon-Je Cho and Young Kyung Suh, who have been believed in the hawkish camp, will end their terms by Apr (Exhibit 17). It is likely that we may see a less hawkish new joiners in the coming meetings.

Exhibit 17: BoK MPC dove-hawk spectrum
Two hawkish MPC members (YJ Cho and YK Suh) will leave the board in April

Ultra dovish	Dovish	Neutral	Mildly hawkish	Hawkish	Ultra hawkish
	SH Shin	Deputy Gov Ryoo	**K Hwang**	Governor Rhee YS Chang	YJ Cho YK Suh

Source: Bank of Korea, BofA Global Research estimates

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All combined, despite the one MPC member opened for a cut in the latest meeting, we see a higher chance that BoK will maintain its balancing act in the near term. We expect the first cut is likely to be introduced in 3Q, after a confirmation of the disinflationary trend (as evidenced by sub-2.5% inflation prints by mid-year). The evolvement of potential dissenting votes as well as the new MPC members also remained the key to watch. In addition, as long as the Fed do not deliver further hawkish tone in the coming meetings (even if they do not cut by June), we believe it will not have a meaningful impact to the BoK rate decisions. We expect two cuts (25bp each) in 3Q and 4Q, respectively, and two more cuts in 1H25, with a terminal rate at 2.5%.

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