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HSBC forecasts positive growth in Korea in 2020 and 2021

HSBC Korea's Global Economic & FX Seminar 2020

Korea's economy is seen to deliver a positive growth this year and the next despite the pandemic, according to experts who presented at HSBC Korea's Global Economic & FX Seminar 2020. The annual seminar for corporate and institutional clients was held on 24 June online this year due to COVID-19.

Frederic Neumann, Co-Head of Asian Economic Research, said "Asia will likely lead the global economic recovery over the coming months, with growth having already turned positive in mainland China and neighboring Asian countries. When it comes to the Korean economy, it has been remarkably resilient as well, and is likely to deliver positive growth in 2020 and 2021." HSBC Global Research forecasts Korea's GDP to post 2.9% growth in 2021, while this year will still post 0.3% growth. Meanwhile, the world GDP is seen to drop to -4.8% this year, with a rebound to 5.8% growth next year.

He explained, "There are signs of a recovery despite unprecedented economic challenges around the world. Most countries have eased lockdowns and social distancing rules, pent-up demand is driving a near term bounce in consumer and business spending. The extraordinary accommodation by central banks around the world has also prevented systemic financial stress, which brightens the prospects for a recovery. At the same time, enormous fiscal support packages in the US, Europe and Asia will help the recovery."

But he pointed out that significant economic and social challenges still remain. Unemployment rate is high in most markets, and the public health and economic shock over the last few months will likely prompt households to raise saving rates in the coming quarters, slowing any rebound.

Paul Mackel, Head of Global Emerging Markets FX Research, highlighted HSBC's accurate forecast of US dollar movement in recent years. HSBC remained bullish on the US dollar for the last two years and predicted likely surge this year, contrary to consensus view.

According to Mackel, "HSBC's baseline assumption expects a U-shaped recovery scenario. Under the scenario, there is likely to be a period of uncertainty as the global economic rebound could take some time to emerge and may offer occasional false hopes. For a market that looks more priced for a V-shaped bounce, this could create some headwinds in the coming months for currencies most closely linked to the global economic cycle, including the Korean won. The US dollar and Japanese yen are likely to remain well supported as the move along the jagged bottom of the U plays out."

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“However, as economies gradually start to emerge from the downswing, we expect the health of respective fiscal positions to become the key driver of the FX market. Those with the most room to support their economies through the course of the drawn-out recovery should feel the benefit from a currency perspective. While the Korean won can face headwinds from sluggish global trade, it is also more resilient than many others,” added Mackel.

Mackel further said FX volatility is expected to rise over the coming months as the US election and the Brexit deadline approach, and US-China tensions continue to emerge.

Eunyoung Jung, President & CEO, HSBC Korea, stated, “For businesses, accurate economic forecast is critical. It is even more so when the economy is sluggish. HSBC holds the Global Economic and FX seminar every year so that our customers can make a robust business plan based on reliable information. We hope our expert insight helps our clients manage through this difficult time.”

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HSBC

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