

National Bank cut the base rate to 9.5%

NBK decided to reduce the base rate to 9.5% with a corridor of +/- 1pp on 5 March. In 2018, NBK will continue the policy of gradual reduction of the base rate given favorable conditions on external markets, positive economic performance of key trade partners, as well as the expectations of strong economic growth in 2018-2019. The next decision on the base rate will be released on 16 April. USDKZT settled at 322.39/USD, down by 0.9% from 16 February. Concurrently, USDRUB weakened by 1.2% to 56.81/USD and Brent decreased by 0.2% to USD64.4pb on 2 March.

- On Friday, USDKZT settled at 322.39/USD, down by 0.9% from 16 February. Concurrently, USDRUB weakened by 1.2% to 56.81/USD and Brent decreased by 0.2% to USD64.4pb on 2 March. 30-day historical volatility in USDKZT was at 6.25% on 2 March, up from 6.18% on 16 February 2018.
- USDKZT started to reflect the trend of oil prices with the 60-day historical correlation between USDKZT and oil prices increasing to 0.25 on 2 March, up from negative 0.06 on 2 February. Meanwhile, the 60-day historical correlation between USDRUB and oil prices was at 0.44. The correlation between USDKZT and DXY index was at -0.22 (USDRUB: -0.45).
- The yield (which move inversely to bond price) on Kazakhstan bond due 2025 stood at 3.6% on 2 March, having decreased by 1.9bps in the last two weeks. Islamic Corporation for the Development of the Private Sector plans to issue a USD40mln Sukuk (Islamic debt securities), proceeds of which will be transferred to Damu, aimed at supporting small- and medium-sized business.

FX market	2-Mar-18	16-Feb-18	31-Jan-18
USDKZT	322.39	319.42	322.9
RUBKZT	5.68	5.66	5.75
USDRUB	56.81	56.4	56.2
EURKZT	397.1	396.6	401.2
EURUSD	1.2317	1.2406	1.2414
DXY Index	89.9	89.1	89.1
NDF USDKZT 3M, %	7.8	7.3	7.4
USDKZT 30D historical volatility	6.25	6.18	5.47
Money Market	2-Mar-18	16-Feb-18	31-Jan-18
TONIA, %	8.76	8.75	8.75
TONIA volume, KZT bln	179.1	220.7	255.4
TWINA, %	8.76	8.75	8.76
TWINA volume, KZT bln	40.4	24.9	36.0
SWAP 1D, %	n/a	n/a	9.17
SWAP 1D volume, USD mln	n/a	n/a	43.7
SWAP 2D, %	8.97	8.32	8.94
SWAP 2D volume, USD mln	295.3	354.2	138.3
MM Index, %	8.76	8.75	8.81
Base rate, %	9.75	9.75	9.75
KASE indices	2-Mar-18	16-Feb-18	31-Jan-18
KASE Index	2,372	2,327	2,329
KASE BY, %	9.5	9.5	9.5
NBK open position	2-Mar-18	16-Feb-18	31-Jan-18
Standing facility, KZT bln	-197	-530	-467
Open market operations, KZT bln	-4,159	-4,226	-3,957
Other operations, KZT bln	1,197	1,197	1,198
NBK's net position, KZT bln	-3,159	-3,560	-3,225
Correspondent accounts	160	130	185
Commodities	2-Mar-18	16-Feb-18	31-Jan-18
Uranium, USD/lb	22.0	21.8	22.3
Brent crude, USD/pb	64.4	64.5	68.6
Net long contracts on Brent, mln bbl	538	554	583
Credit&Deposit rates	Jan-18	Dec-17	Nov-17
Corporate KZT loans rate, %	13.4	13.2	13.4
Retail KZT loans rate, %	20.1	19.2	18.9
Corporate FX loans rate, %	6.0	5.8	5.4
Retail FX loans rate, %	19.2	7.3	8.2
Corporate KZT deposits rate, %	7.6	8.0	7.9
Retail KZT deposits rate, %	10.7	10.5	10.3
Corporate FX deposits rate, %	1.2	1.2	1.3
Retail FX deposits rate, %	2.1	2.1	2.1

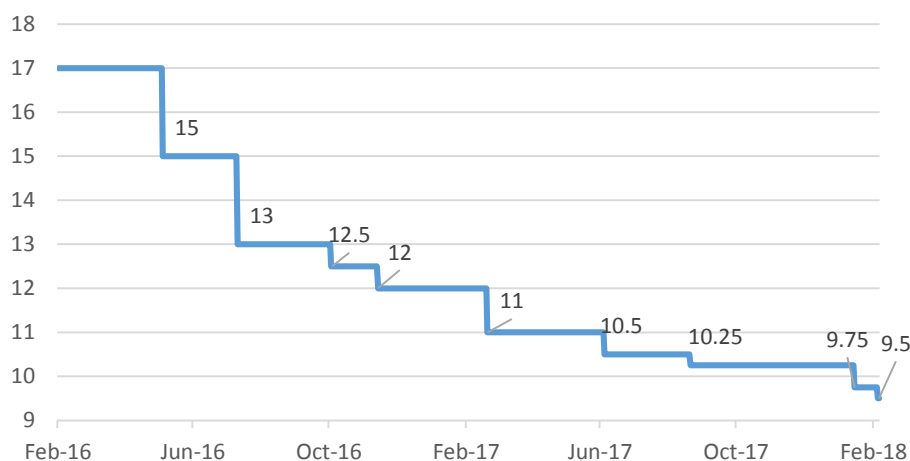
Source: Bloomberg, KASE, NBK, Samruk-Kazyna

NBK decided to reduce the base rate to 9.5% with a corridor of +/- 1pp on 5 March.

- (1) Inflation trends downward to the target range for 2018. Since the beginning of 2018, inflation decelerated faster than expected (February: 6.5%). In 4Q18, inflation is projected to reach a level lower than 5% as a result of weak consumer demand and in absence of the shocks, according to NBK projections. In the medium-term, CPI is expected within the new target range of 4-6% for 2019. In January, core inflation (excl. volatile components) was at 6.1%.
- (2) In January 2018, one-year inflationary expectations eased to 6.6% from 7.7% in November 2017.
- (3) According to preliminary estimates, Kazakhstan's economy expanded by 4% YoY in January 2018, maintaining the strong growth momentum observed in 2017.

NBK will continue the policy of gradual reduction of the base rate given favorable conditions on external markets, positive economic performance of key trade partners, as well as the expectations of strong economic growth in 2018-2019. The next decision on the base rate will be released on 16 April.

The base rate, % (Feb 2016 – Mar 2018)



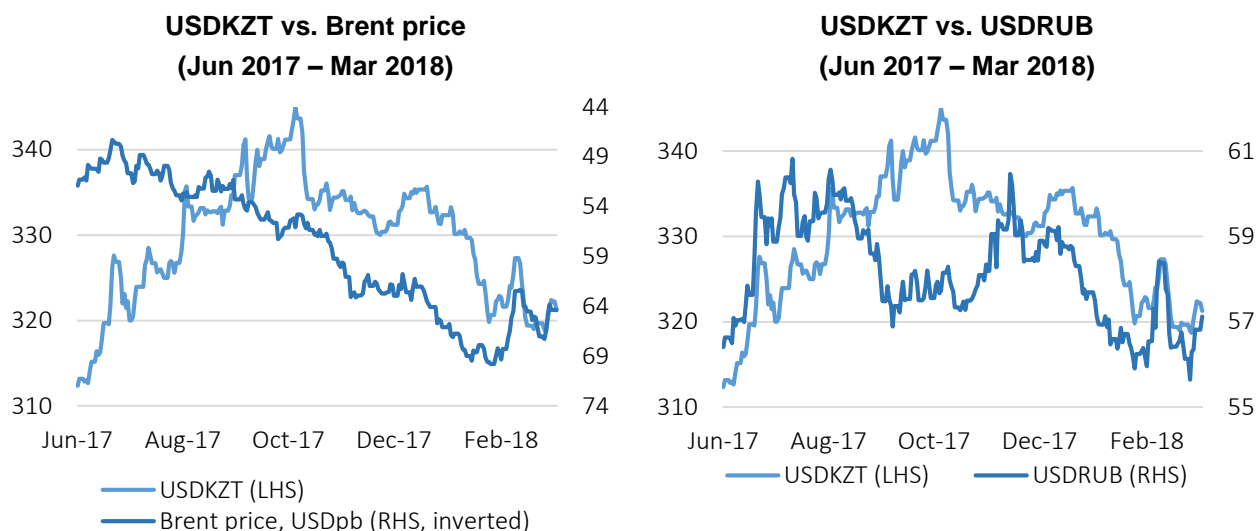
Source: Bloomberg, Samruk-Kazyna

1. FX market

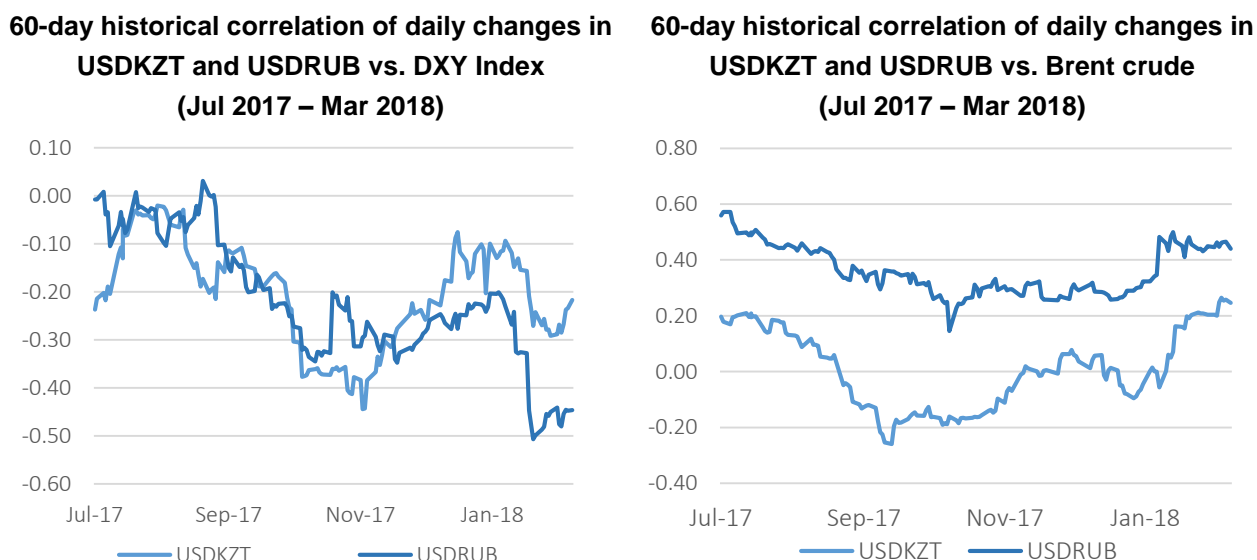
On Friday, USDKZT settled at 322.39/USD, down by 0.9% from 16 February. Concurrently, USDRUB weakened by 1.2% to 56.81/USD and Brent decreased by 0.2% to USD64.4pb on 2 March. In Russia, the Ministry of Finance purchases FX currency of RUB9,6bln (USD168mln) on a daily basis in the period of 7 March - 5 April (previously: RUB15,7bln or USD275mln). 30-day historical volatility in USDKZT was at 6.25% on 2 March, up from 6.18% on 16 February 2018.

On Monday, Brent crude settled at USD65.54pb, having gained 2.2% from its previous settlement, on forecasts for strong growth of oil demand and expectations that OPEC will not be able to raise its production capacity (the International Energy Agency).

USDKZT started reflect the trend of oil prices with the 60-day historical correlation between USDKZT and oil prices increasing to 0.25 on 2 March, up from negative 0.06 on 2 February. Meanwhile, the 60-day historical correlation between USDRUB and oil prices was at 0.44. The correlation between USDKZT and DXY index was at -0.22 (USDRUB: -0.45).



Source: Bloomberg, NBK, Samruk-Kazyna



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On the international FX market, **DXY Index** (the US dollar index against a basket of six major currencies) was at 89.93 on Monday, up by 0.9% from its previous settlement. The market concerns eased over the US tariffs on imports of steel and aluminum.

In the last two weeks ended 2 March, **the euro** decreased by 0.71%, reflecting political developments in Germany and Italy. On 8 March, European Central Bank policymakers are expected to discuss its monetary policy stance but no major policy shift is expected, according to the market sources. The recent market turbulence, the strong euro and a decreased inflation would force officials to wait before providing signs of the end of asset buys (Reuters). The ECB is anticipated to close its bond purchase program by year-end, satisfied that strong economic growth will underpin consumer prices. Inflation slid to 1.2% last month, below the ECB's target of almost 2%. It is worth noting, that ECB feels confident that inflation would rise.

Money Market Updates – National Bank cut the base rate to 9.5%

In the last two weeks ended 2 March, **the lira** slid by 1.59% to 3.8076/USD. On Monday, the lira decreased by 0.2% to 3.816/USD against the US dollar on the back of inflation data, which was stronger than expected. Consumer prices rose 10.26% in February (the market expectations: 10.03%).

FX rates (Mar 2017 – Mar 2018)

Per 1 US dollar	02-Mar-18	1D Δ	1W Δ	2W Δ	1M Δ	6M Δ	1Y Δ
Kazakh tenge	322.4	-0.33%	-0.85%	-0.92%	0.16%	4.54%	-2.24%
Russia ruble	56.8139	0.01%	-1.20%	-0.70%	-1.09%	1.17%	2.42%
Chinese renminbi	6.3454	0.20%	-0.13%	-0.06%	-0.89%	3.36%	8.78%
Euro	0.8118	0.42%	0.18%	-0.71%	-0.76%	3.87%	16.58%
British pound	0.7246	0.18%	-1.17%	-1.68%	-2.76%	6.56%	13.11%
Swiss franc	0.9374	0.47%	-0.14%	-1.11%	-0.65%	2.92%	8.10%
Czech koruna	20.5933	0.68%	0.19%	-0.74%	-1.14%	6.67%	24.19%
Turkish lira	3.8076	-0.04%	-0.49%	-1.59%	-1.37%	-9.92%	-3.35%
Australian dollar	1.2886	0.06%	-1.02%	-1.86%	-3.67%	-2.62%	2.28%
Canadian dollar	1.2882	-0.35%	-1.93%	-2.52%	-4.40%	-3.79%	4.12%
Japanese yen	105.7500	0.46%	1.08%	0.43%	3.25%	4.26%	7.78%
Mexican peso	18.8225	0.15%	-1.42%	-1.58%	-1.18%	-5.36%	3.57%
Brazilian real	3.2532	-0.05%	-0.44%	-0.68%	-2.02%	-3.47%	-4.12%
South African rand	11.9236	-0.27%	-3.06%	-2.75%	-0.61%	8.52%	8.80%
DXY Index	89.9350	-0.43%	0.06%	0.94%	0.90%	-3.10%	-11.66%

Source: Bloomberg, Samruk-Kazyna

2. Fixed income market

The yield (which move inversely to bond price) on Kazakhstan bond due 2025 stood at 3.6% on 2 March, having decreased by 1.9bps in the last two weeks. Islamic Corporation for the Development of the Private Sector plans to issue a USD40mIn Sukuk (Islamic debt securities), proceeds of which will be transferred to Damu, aimed at supporting small- and medium-sized business.

Yields on the government bonds, % (Mar 2017 – Mar 2018)

Issuance	02-Mar-18	1D Δ, bps	2W Δ, bps	1M Δ, bps	6M Δ, bps	1Y Δ, bps
USD Kazakhstan'25 5.125%	3.638	3.0	-1.9	27.3	30.8	-33.0
USD Kazakhstan'44 4.875%	4.761	2.4	-5.7	34.9	14.8	-37.9
EUR Germany'28 0.5%	0.645	0.7	-5.6	-4.7	27.2	33.0
USD Russia'47 5.25%	5.037	2.7	1.3	15.1	7.6	n/a
USD Russia'27 4.25%	4.133	1.3	-1.4	25.2	29.0	n/a
RUB Russia'28 7.05%	7.060	2.0	3.0	-16.0	-62.0	-107.0
CNY China'27 3.82%	3.840	1.5	n/a	-6.4	18.4	48.9
EUR Italy'27 2.05%	1.954	1.6	-2.3	-6.5	-11.2	-22.5
EUR Netherlands'27 0.75%	0.692	1.0	-5.6	-3.8	18.7	10.3
GBP UK'27 4.25%	1.473	0.7	-10.7	-3.6	41.9	28.4
TRY Turkey'27 10.5%	11.600	6.0	0.0	21.0	n/a	78.0
USD US'27 2.375%	2.855	3.4	-4.2	14.9	68.3	n/a

Source: Bloomberg, Samruk-Kazyna

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