



NBK keeps the base rate unchanged at 10.5%

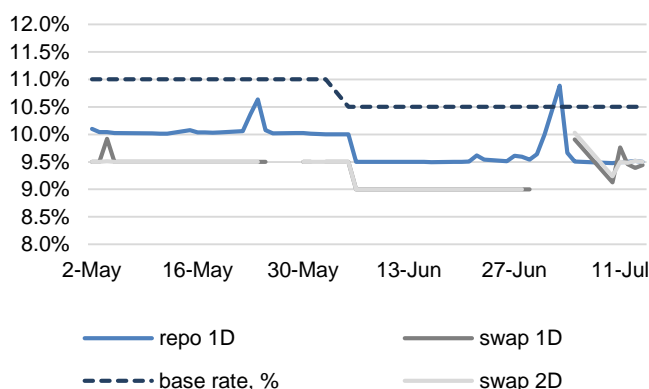
NBK kept the base rate unchanged at 10.5% with a corridor of ± 1 ppt. NBK might cut the base rate both in the short-term and in 12-18 months, aimed at matching the real interest base rate with the long-term potential economic growth rate, amidst the deceleration trajectory of forecasted inflation in the medium-term. However, oil prices below USD50pb and the price index acceleration in the world food markets in May-June might lead to the increased inflationary pressure. Oil prices volatility remained high, putting pressure on tenge. In June 2017, foreign exchange interventions took place for the first time since September 2016, aimed at meeting an excess demand for the US dollars.

During the last two weeks, overnight repo rates (TONIA) were mostly near the lower bound of the base rate corridor, reflecting excess liquidity in the banking system. However, TONIA saw a spike to 10.88% on 3 July, driven by elevated demand for the short-term tenge liquidity. TONIA seesawed in the range of 9.47-10.88%. Although a structural liquidity surplus is observed on the money market amid low lending activity, the certain small and mid-size banks experienced liquidity problems.

Meanwhile, overnight swap rates increased to 9.5% on 14 July from 9.0% on 30 June, with a spike of 10% on 5 July. NBK's operations on the currency swap market in the period of between 16 March and 1 July was aimed at maintaining interest rates near the base rate level.

Starting from 1 July, NBK stopped its operations on the currency swap market, while loans issued to banks were replaced by currency interest rate swaps with banks.

1-day repo and swap rates, % (2 May – 14 Jul)

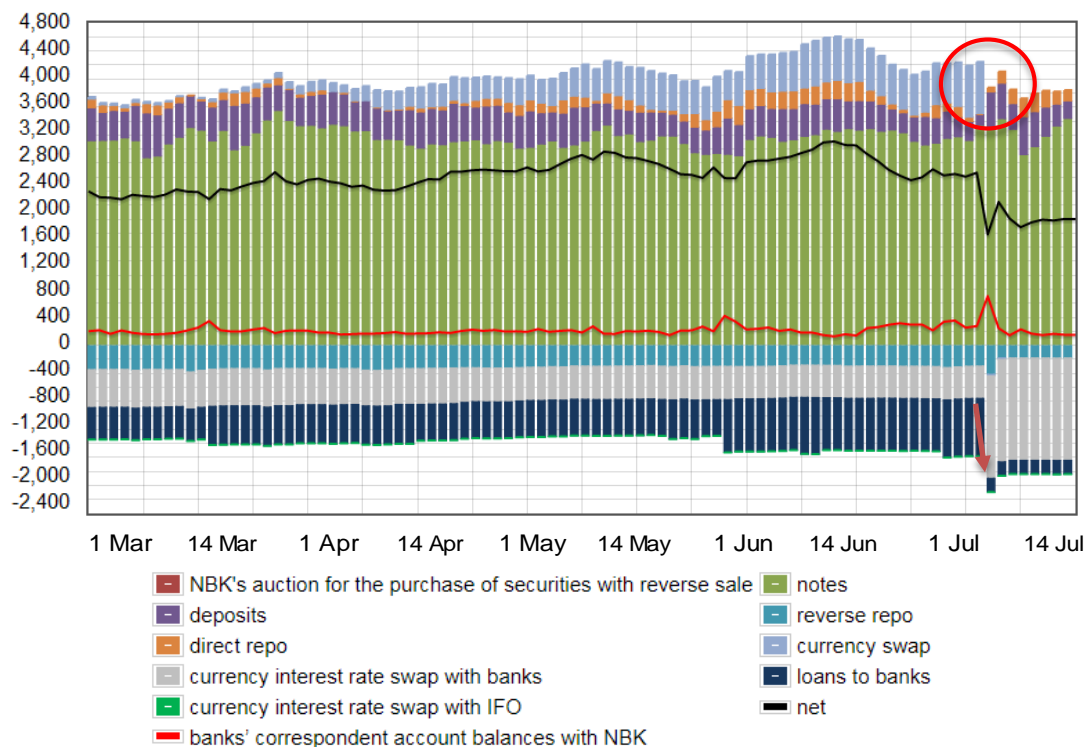


FX market	14-Jul-17	30-Jun-17	14-Jun-17
USDKZT	327.6	322.2	316.4
EURKZT	373.5	368.2	355.2
RUBKZT	5.5	5.3	5.5
EURUSD	1.1	1.1	1.1
NDF USDKZT 1W, %	10.8	9.1	10.0
NDF USDKZT 1M, %	8.3	9.1	8.0
NDF USDKZT 3M, %	8.7	8.4	7.8
USDKZT 30D historical volatility	8.9	8.6	6.3
Money Market	14-Jul-17	30-Jun-17	14-Jun-17
TONIA, %	9.5	9.6	9.5
TONIA volume, KZT bln	233.5	236.8	292.9
TWINA, %	9.9	9.5	9.8
TWINA volume, KZT bln	1.9	6.4	4.8
SWAP 1D, %	9.4	n/a	9.0
SWAP 1D volume, USD mln	37.1	n/a	15.1
SWAP 2D, %	n/a	9.0	9.0
SWAP 2D volume, USD mln	n/a	3,352	1,593
MM Index, %	9.5	9.6	9.5
MM Index volume, KZT bln	246	237	298
Base rate, %	10.5	10.5	10.5
KazPrime 3M, %	11.5	11.5	11.5
KASE indices	14-Jul-17	30-Jun-17	14-Jun-17
KASE Index	1,747	1,660	1,558
KASE BP	105.1	104.0	103.2
KASE BY, %	10.7	10.6	10.4
NBK open position	14-Jul-17	30-Jun-17	14-Jun-17
Standing facility, KZT bln	-239	-783	-1,081
Open market operations, KZT bln	-3,228	-2,914	-3,043
Other operations, KZT bln	1,666	1,291	1,216
NBK's net position, KZT bln	-1,801	-2,405	-2,908
Correspondent accounts	149	251	126
Credit&Deposit rates	May-17	Apr-17	Mar-17
Corporate KZT loans rate, %	13.3	13.9	13.0
Retail KZT loans rate, %	18.6	18.7	18.4
Corporate FX loans rate, %	6.3	6.3	6.9
Retail FX loans rate, %	13.3	13.6	12.3
Corporate KZT deposits rate, %	8.7	9.4	9.5
Retail KZT deposits rate, %	12.0	12.0	12.1
Corporate FX deposits rate, %	1.6	1.7	1.6
Retail FX deposits rate, %	2.2	2.6	2.5

Source: KASE, Bloomberg, NBK, Samruk-Kazyna

Source: KASE, Bloomberg, Samruk-Kazyna

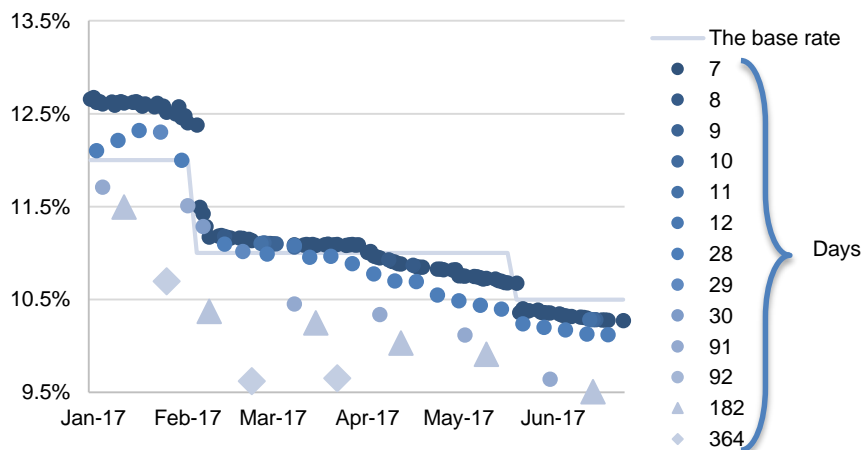
NBK's open position, KZT bln (1 Mar – 14 Jul)



Source: NBK

As of 14 July, NBK's issued short-term notes stood at KZT3.2tn. Despite the tenge weakening in the last two weeks, yields on 7-day notes continued to decline to 10.27% on 14 July from 10.30% on 28 June and from 10.67% on 5 June, since NBK cut the base rate to 10.5%. In the last two weeks, yields on 28-day notes were mostly stable, seesawing in the range of 10.12% – 10.13%.

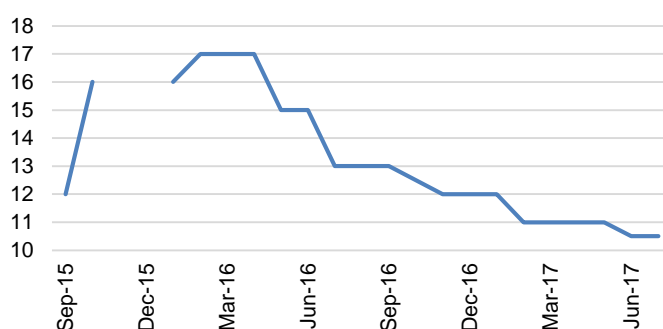
Yields on NBK's short-term notes, % (Jan 17 - Jul 17)



Source: Central Securities Depository, Samruk-Kazyna

NBK decided to keep the base rate unchanged at 10.5% with a corridor of +/-1ppt. The deceleration trajectory of forecasted inflation in the medium-term increases the possibility of lowering the base rate both in the short-term and in 12-18 months, aimed at matching the real interest base rate with the long-term potential economic growth rate.

The base rate, % (Sep 15 – Jun 17)

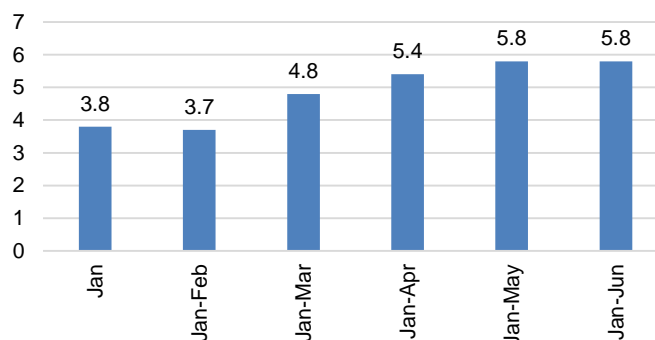


Source: NBK, Samruk-Kazyna

The annual inflation in June 2017 stood at 7.5%, within the target range of NBK (6-8%). In 1H17, inflation stood at 3.7%, lower than 4.6% in 1H16. In June, the base inflation rate comprised 6.8% (8.9% in December 2016). The inflationary expectation of the population remains stable since the beginning of 2017, with projected inflation for a year ahead was estimated at 6.4%. However, oil prices below USD50pb and the price index acceleration in the world food markets in May-June might lead to the increased inflationary pressure.

The economic activity continues demonstrating the recovery. NBK's program, aimed at increasing financial sustainability in the banking sector in 3Q17, is expected to force lending activity. The next decision on the base rate will be released on 21 August.

Short-term economic indicator, % (Jan 17 – Jun 17)

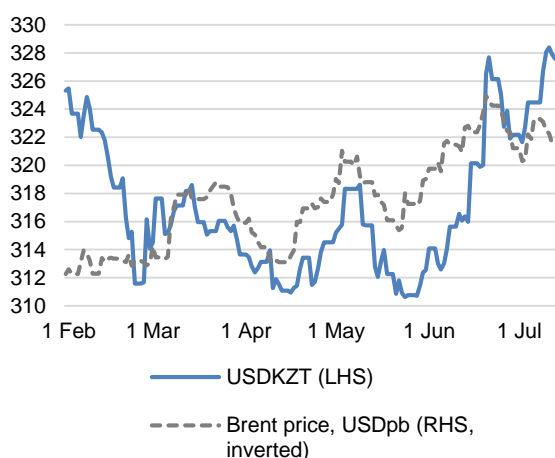


Source: Trading economics, Samruk-Kazyna

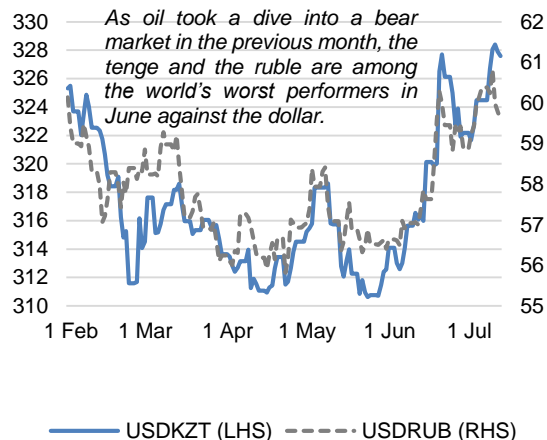
On 17 July, tenge closed at 325.62/USD. During the last two weeks, tenge weakened by 5.4 tenge to 327.6/USD on 14 July. Meanwhile, the Russian ruble weakened to 59.6/USD by 0.72 ruble during the last two weeks ended 14 July. Although oil prices declined slightly by 0.1% to USD48.7pb in the last two weeks, its volatility remained high, putting pressure on tenge. 30-day historical volatility of tenge elevated to 8.9% on 14 July from 8.6% on 30 June.

Last week ended 14 July, oil prices rose by 5%, as the International Energy Agency stated that strong demand growth could help reduce bloated inventories of crude oil in 2H17. Meanwhile, we view that continued strong growth of the US oil output and oil rig count remain as a key concern. It is worth noting that OPEC's compliance with its own oil supply cuts fell to 78% in June, while global oil supply rose sharply by 720,000 bpd last month. We expect volatility in oil prices to remain high for 2H17 and maintain our 2017 average forecast of USD50-52pb for Brent.

USD-KZT vs. Brent price (1 Feb – 14 Jul)



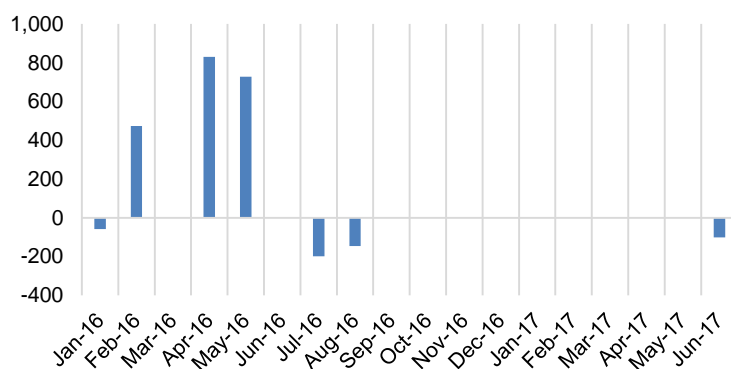
USD-KZT vs. USD-RUB (1 Feb – 14 Jul)



Source: Bloomberg, Samruk-Kazyna

In June 2017, foreign exchange interventions took place for the first time since September 2016. NBK sold USD101mln on the currency market on 21 and 22 June, aimed at meeting an excess demand for the US dollars, as oil prices reached the minimum since the beginning of the 2017 year (USD45pb), and the Russian ruble weakened to 60/USD. Since the domestic currency market has significant exposure to its high volatility, NBK retains its right of intervening the currency market aimed at smoothing fluctuations.

NBK's operations on the currency market, USD mln (Jan 16 – Jun 17)



Source: NBK, Samruk-Kazyna

Kazakhstan's 5-year credit default swap (CDS) stood at 86 bp on 14 July, having increased by 8 bp in a month amidst elevated volatility in oil prices and the tenge weakening by 11.2 tenge. 5Y CDS of Russia also widened to 165 bp, up by 6 bp. 5Y CDS of China comprised 66 bp on 14 July, having declined by 47 bp from 13 January. China's economy grew 6.9% in 2Q17, still comfortably above the government's target. The economy is now on pace for its first year-on-year acceleration since 2010. However, risks from rising debt and overcapacity in large swathes of the manufacturing sector still loom over the economy, according to the market sources.

Dynamics of CDS* spreads, bp (Jul 16- Jul 17)

	14-Jul-17	2W Δ, bps	1M Δ, bps	6M Δ, bps	1Y Δ, bps	S&P Moody's Fitch
Kazakhstan CDS 3Y	86	4	10	-3	-69	BBB- Baa3 BBB
Kazakhstan CDS 5Y	149	-2	8	-12	-75	BBB- Baa3 BBB
Kazakhstan CDS 10Y	219	-3	14	4	-59	BBB- Baa3 BBB
Russia CDS 5Y	165	-4	6	-17	-67	BB+ Ba1 BBB-
China CDS 5Y	66	-3	2	-47	-44	AA- A1 A+
Germany CDS 5Y	15	-1	-1	-7	-2	AAAu Aaa AAA
Italy CDS 5Y	146	1	-6	-8	11	BBB-u Baa2 BBB
Netherlands CDS 5Y	18	-1	-1	-8	-9	AAAu Aaa AAA
France CDS 5Y	21	-1	-4	-20	-15	AAu Aa2 AA
UK CDS 5Y	20	0	n/a	n/a	-17	AAu Aa1 AA
Czech Republic CDS 5Y	37	0	-2	-3	-3	AA- A1 A+
Turkey CDS 5Y	191	-4	8	-96	-78	BBu Ba1 BB+
Halyk CDS 5Y	278	-2	-6	-195	-221	BB *- Ba3 BB *-
Kazkom CDS 5Y	558	-5	-37	-602	-832	B- * B1 CCC *
DBK CDS 5Y	179	2	0	-29	-105	BB+ Baa3 BBB-

Source: Bloomberg, Samruk-Kazyna

*CDS is a credit derivative contract that protects lenders in the event of default through transferring the risk in return for periodic payments. It also can be used as an indicator of credit-risk in corporates and banks or barometer of sovereign risk.

FX rates (Jul 16 – Jul 17)

Per 1 US dollar	14-Jul-17	2W Δ	1M Δ	6M Δ	1Y Δ
Kazakh tenge	328	5.40	11.20	-4.75	-11.42
Russia ruble	59.6	0.72	2.19	0.01	-3.92
Chinese renminbi	6.78	0.00	-0.01	-0.12	0.09
Euro	0.88	0.00	-0.02	-0.06	-0.03
British pound	0.77	0.00	-0.01	-0.05	0.01
Swiss franc	0.97	0.01	0.00	-0.04	-0.02
Czech koruna	22.9	-0.01	-0.48	-2.54	-1.66
Turkish lira	3.57	0.04	0.08	-0.16	0.52
Australian dollar	1.29	-0.01	-0.03	-0.04	-0.04
Canadian dollar	1.27	-0.02	-0.05	-0.04	-0.03
Japanese yen	113	0.71	3.52	-1.39	6.98
Mexican peso	17.7	-0.44	-0.24	-3.80	-0.82
Brazilian real	3.21	-0.10	-0.06	-0.01	-0.04
South African rand	13.2	0.12	0.57	-0.32	-1.15
DXY Index*	95.6	0.01	-1.30	-5.54	-1.42

Source: Bloomberg, Samruk-Kazyna

*DXY Index is an index of the value of the US dollar relative to a basket of foreign currencies, often referred to as a basket of the US trade partners' currencies

The US consumer price index was little changed in June, signalling inflation may take even longer to reach the Federal Reserve's goal than had been thought. While retail sales fell for a second month to undermine the outlook for 2Q GDP. On 14 July, DXI Index stood 95.6 after earlier falling to 95.186, its lowest since September 2016, as the revealed statistics raised doubts about the US economic growth and whether the Fed will hike rates again this year.

Monetary policies

Country	Description	Target rates' tenor	Current rate, %	Previous rate, %	Next meeting	CPI YoY, %	Month
Kazakhstan	Base rate	o/n	10.5	11.0	21-Aug-17	7.5	June
Russia	Bank of Russia Key Rate	1w	9.0	9.0	28-Jul-17	4.4	June
China	China 1 Year Benchmark Lending	1y	4.35	4.35	n/a	1.40	June
US	Federal Funds Target Rate - Up	o/n	1.25	1.00	26-Jul-17	1.66	June
Eurozone	ECB Main Refinancing Operation	1w	0	0	20-Jul-17	0.24	June

Source: Bloomberg, Samruk-Kazyna



NBK released that it developed and approved a program aimed at providing liquidity support and strengthen banks' balance sheets, when feasible. Within the program, NBK intends to support systemic bank, increase financial stability of banks of major importance, and implement risk-based supervision, in line with best practices.

Shareholders are expected to be obliged to inject more capital based on a set timetable. NBK estimated that the state will provide more than KZT500bln tenge (USD1.5bln) to support the banking system. The start of the program with NBK's funds is expected in 3Q17.

Key indicators of SK's major STB counterparts (as at end-May 17)

Bank	S&P Moody's Fitch	Deposits, KZT bln	Deposits, ytd %	% of FX deposits in retail deposits	Loans, KZT bln	Loans, ytd %	Share of NPLs	ROAE ytd	k1*
Kazkom	B- * B1 CCC *	2,595	-9%	58%	3,490	-5.8%	13.4%	25%	10.4%
Halyk	BB*- Ba3 BB*-	3,320	-4%	61%	2,334	-1.5%	8.8%	26%	19.9%
Tsesna	B+ - B	1,544	1%	72%	1,607	-2.1%	4.8%	8%	9.1%
ATF	B Caa3 B-	946	-10%	70%	765	7.6%	14.4%	13%	8.4%
Centercredit	B B3 B	961	-6%	61%	919	3.3%	8.8%	4%	8.6%
ForteBank	B Caa1 WD	942	9%	54%	534	3.7%	7.6%	6%	20.1%
Bank RBK	B*- - -	640	-17%	72%	737	-2.2%	5.0%	4%	8.7%
Kaspi Bank	BB- B2u WD	828	2%	38%	850	7.9%	8.6%	23%	11.8%
Eurasian	B WR WD	700	7%	52%	713	3.2%	9.7%	-15%	9.2%
Citibank	- - -	419	-5%	50%	81	2.6%	n/a	21%	80.2%
Nurbank	B- WR -	238	-14%	60%	208	-6.8%	7.4%	1%	14.2%
Altyn Bank	NR - -	296	1%	77%	94	-13.7%	2.2%	22%	35.9%
Alfa Bank	BB- - BB-	224	11%	47%	163	27.5%	10.3%	-5%	16.7%
AsiaCredit	NR - B-	80	-28%	67%	103	-19.9%	7.2%	21%	15.4%
Bank VTB	BB - WD	85	-1%	54%	73	-6.0%	17.2%	2%	13.1%
Kassa Nova	B - -	66	3%	30%	65	0.5%	4.8%	5%	14.1%
Capital Bank	B- - -	38	-26%	72%	68	-5.7%	9.1%	-8%	18.6%

*k1 or core capital adequacy ratio is a ratio of core equity capital to its total risk-weighted assets (minimum regulatory requirement k1 – 5.5%)

WD, WR- withdrawn rating, NR-not rated

Source: KASE, NBK, Samruk-Kazyna

Calendar of events on money market

Date	Event	Country
18-Jul	CPI YoY	Eurozone
19-Jul	MBA Mortgage Applications	United States
19-Jul	Housing Starts	United States
20-Jul	Initial Jobless Claims	United States
20-Jul	ECB Main Refinancing Rate	Eurozone
24-Jul	Markit Eurozone Manufacturing PMI	Eurozone
24-Jul	Markit US Manufacturing PMI	United States
25-Jul	Conf. Board Consumer Confidence	United States
26-Jul	FOMC Rate Decision (Upper Bound)	United States
26-Jul	MBA Mortgage Applications	United States
26-Jul	New Home Sales	United States
27-Jul	Initial Jobless Claims	United States
27-Jul	Durable Goods Orders	United States
28-Jul	GDP Annualized QoQ	United States
28-Jul	Key Rate	Russia
31-Jul	Caixin China PMI Mfg	China
1-Aug	ISM Manufacturing	United States
1-Aug	GDP SA QoQ	Eurozone
1-Aug	GDP SA YoY	Eurozone
1-Aug	Markit Eurozone Manufacturing PMI	Eurozone
1-Aug	Markit US Manufacturing PMI	United States
2-Aug	MBA Mortgage Applications	United States
3-Aug	Initial Jobless Claims	United States
3-Aug	Durable Goods Orders	United States
4-Aug	Change in Nonfarm Payrolls	United States
8-Aug	CPI YoY	China
8-Aug	PPI YoY	China
9-Aug	MBA Mortgage Applications	United States
10-Aug	Initial Jobless Claims	United States
11-Aug	CPI MoM	United States

Source: Bloomberg, Samruk-Kazyna

Disclaimer & Disclosures

The Research and Knowledge Management Department Strategy and Portfolio Investment Block of JSC “Samruk-Kazyna” (*hereinafter referred to as “the Research Team”*) is responsible for the analysis of this report. The Research Team certifies that all views expressed in this Research report (*hereinafter referred to as “Report”*) reflect the Research Team’s personal views.

The Report is based on the information taken from the sources which the Research Team considers reliable and takes every care and precaution to ensure that information related to the Report published on the corporate website of JSC “Samruk-Kazyna” is accurate and regularly updated, but neither the Research Team nor JSC “Samruk-Kazyna” make guarantee, warranty of any kind, express or implied, or make representation as to the accuracy or completeness of the information contained in the Report or otherwise, and it should not be relied on as such. The Research Team may change the information contained in this Research at any time without notice.

Neither the Research Team nor JSC “Samruk-Kazyna” or any of its officers, employees shall be liable for any losses or damage that may result from use of the information contained in the Report as a consequence of any inaccuracies in, errors or omissions, if any, from the information which the Report may contain or otherwise arising from the use and/or further communication, disclosure, or other publication of the information contained in the Report.

This Report is solely intended for general informational purposes and is provided for internal distribution within JSC “Samruk-Kazyna”. This Report is not in any sense a solicitation or offer of the purchase or sale of securities or any assets in any jurisdiction.

No part of this material may be copied or duplicated in any form by any means or redistributed without any prior written consent of JSC “Samruk-Kazyna”. Additional information is available upon request.