



SAMRUK
K A Z I N A

Tenge stable on strong ruble and higher oil prices

In December 2017, USDKZT hovered in the range of 331-336 and averaged at 334 as of 25 December 2017, supported by strong ruble and high oil prices. Stabilization of exchange rate was reflected in reduced households' devaluation expectations, as they cut FX purchases by 22% MoM in November. The share of FX retail deposits in total retail deposits slid to 54.3% (October: 56.2%). This month NBK released its monetary policy guidelines for 2018, outlining that NBK will continue adhering the main principles of inflation targeting, maintaining price stability and fostering the long-term economic growth.

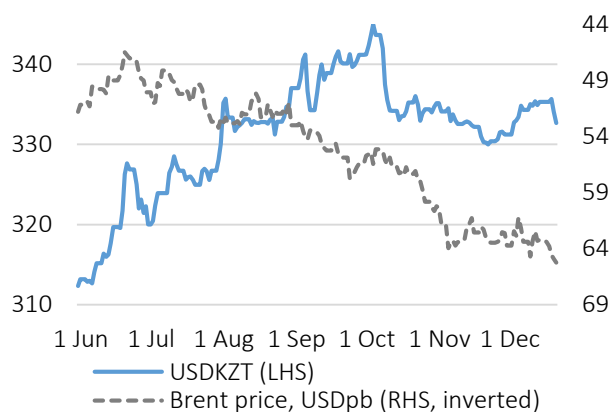
- USDKZT settled at 332.68/USD on 22 December, having weakened by 0.7% in a month. Meanwhile, 30-day historical volatility in USDKZT remained at a low level of 3.7%. USDRUB strengthened marginally by 0.2% MoM to a one-month high of 58.31/USD on 22 December, mainly attributable to tax payments by exporters. At the same time, Brent crude was at USD65.32pb, the highest level since June 2015, having gained 3.6% MoM.
- In November, NBK did not intervene in FX market. Interventions were conducted in June (a 2.9% share in the total trading volume), in August (1.8%), September (2.1%) and October (10.6%), aimed at stabilizing the situation on the FX market and smoothing out the short-term and speculative fluctuations.
- In November, the share of FX retail deposits in total retail deposits slid to 54.3% (October: 56.2%). The maximum recommended interest rate on retail deposits in tenge remained at 14%, while the interest rate on foreign currency deposits was reduced to 1% effective 1 December 2017. In addition, FX purchases by households at exchanges slid by 22% MoM to USD868mln in November, also demonstrating the general stabilization of households' devaluation expectations.

FX market	22-Dec-17	8-Dec-17	22-Nov-17
USDKZT	332.68	334.32	330.2
RUBKZT	5.70	5.63	5.60
USDRUB	58.31	59.1	58.4
EURKZT	394.6	394.0	390.1
EURUSD	1.1862	1.1773	1.1822
DXY Index	93.3	93.9	93.2
NDF USDKZT 3M, %	7.0	7.2	6.9
USDKZT 30D historical volatility	3.7	3.3	3.3
Money Market	22-Dec-17	8-Dec-17	22-Nov-17
TONIA, %	9.3	9.3	9.3
TONIA volume, KZT bln	407.5	272.0	259.3
TWINA, %	9.3	9.3	9.5
TWINA volume, KZT bln	35.7	21.7	11.4
SWAP 1D, %	n/a	9.3	n/a
SWAP 1D volume, USD mln	n/a	84.7	n/a
SWAP 2D, %	10.9	9.3	9.5
SWAP 2D volume, USD mln	1,004.7	352.5	866.3
MM Index, %	9.3	9.3	9.3
Base rate, %	10.3	10.3	10.3
KASE indices	22-Dec-17	8-Dec-17	22-Nov-17
KASE Index	2,124	2,127	2,101
KASE BY, %	9.5	9.5	9.2
NBK open position	22-Dec-17	8-Dec-17	22-Nov-17
Standing facility, KZT bln	-506	-326	-391
Open market operations, KZT bln	-2,980	-3,014	-3,049
Other operations, KZT bln	1,348	1,350	1,430
NBK's net position, KZT bln	-2,138	-1,991	-2,011
Correspondent accounts	192	178	186
Commodities	22-Dec-17	8-Dec-17	22-Nov-17
Uranium, USD/lb	24.0	25.0	24.5
Brent crude, USD/pb	65.3	63.4	63.0
Net long contracts on Brent, mln bbl	522	528	533
Credit&Deposit rates	Nov-17	Oct-17	Sep-17
Corporate KZT loans rate, %	13.4	13.5	13.1
Retail KZT loans rate, %	18.9	19.2	18.8
Corporate FX loans rate, %	5.4	4.3	5.5
Retail FX loans rate, %	8.2	15.5	13.6
Corporate KZT deposits rate, %	7.9	8.0	8.0
Retail KZT deposits rate, %	10.3	11.5	11.9
Corporate FX deposits rate, %	1.3	1.4	2.0
Retail FX deposits rate, %	2.1	2.1	2.0

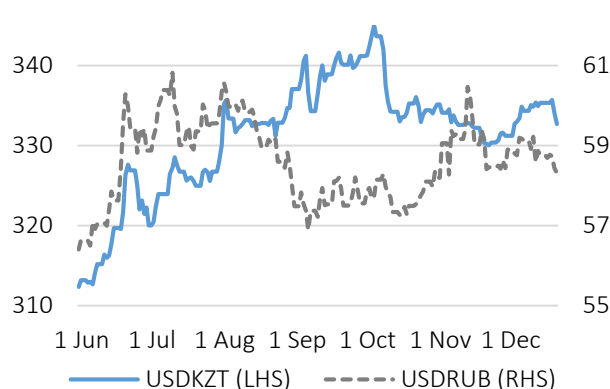
Source: Bloomberg, KASE, NBK, Samruk-Kazyna

USDKZT settled at 332.68/USD on 22 December, having weakened by 0.7% in a month. Meanwhile, 30-day historical volatility in USDKZT remained at a low level of 3.7%, indicating the general stabilization of FX market. USDRUB strengthened marginally by 0.2% to a one-month high of 58.31/USD, mainly attributable to tax payments by exporters. At the same time, Brent crude was at USD65.32pb, the highest level since June 2015, having gained 3.6% MoM, underpinned by pledges from Saudi Arabia and Russia that any exit from the output cut deal would be gradual.

**USDKZT vs. Brent price
(Jun 2017 – Dec 2017)**



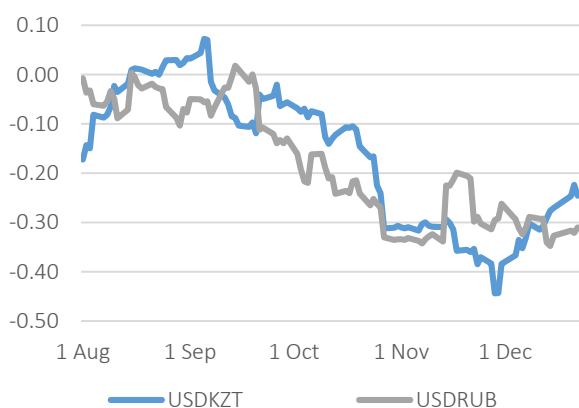
**USDKZT vs. USDRUB
(Jun 2017 – Dec 2017)**



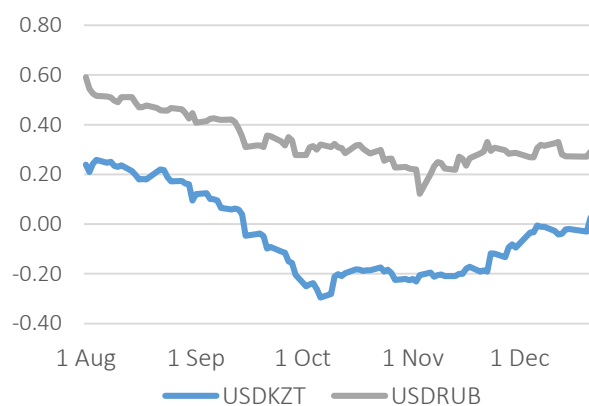
Source: Bloomberg, NBK, Samruk-Kazyna

In December, oil prices have had a limited impact on USDKZT, as evidenced by low 60-day historical correlation of 0.05 as at 22 December 2017. Meanwhile, the correlation between USDKZT and DXY index stood at -0.25. In December, the Federal Reserve increased its benchmark interest rate by 25 bps to 1.5%, marking the third upward move in 2017 and paving the way to further hikes in 2018. The Federal Reserve's so-called dot plot of interest rate forecasts indicates three rate hikes in 2018, leading to 2.1%. It is worth noting that the markets have already factored in the increase in the Fed rate, as well as the continued unwinding of the quantitative easing program.

**60-day historical correlation of daily changes in
USDKZT and USDRUB vs. DXY Index
(Aug 2017 – Dec 2017)**

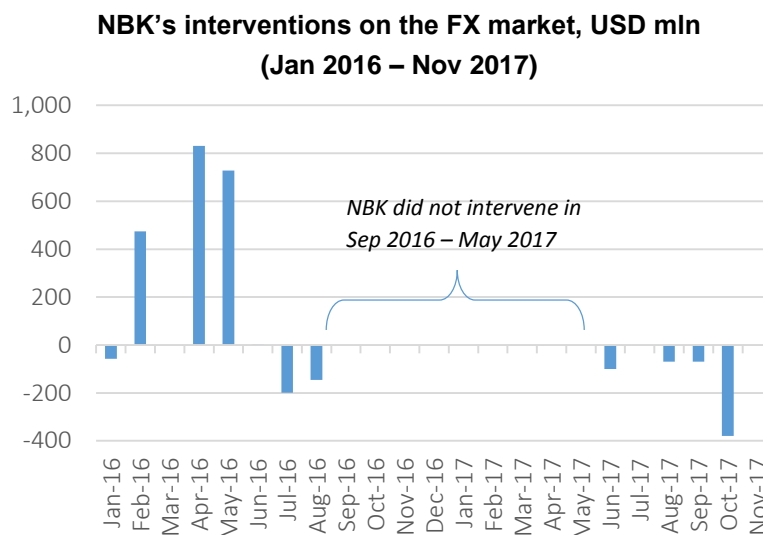


**60-day historical correlation of daily changes in
USDKZT and USDRUB vs. Brent crude
(Aug 2017 – Dec 2017)**



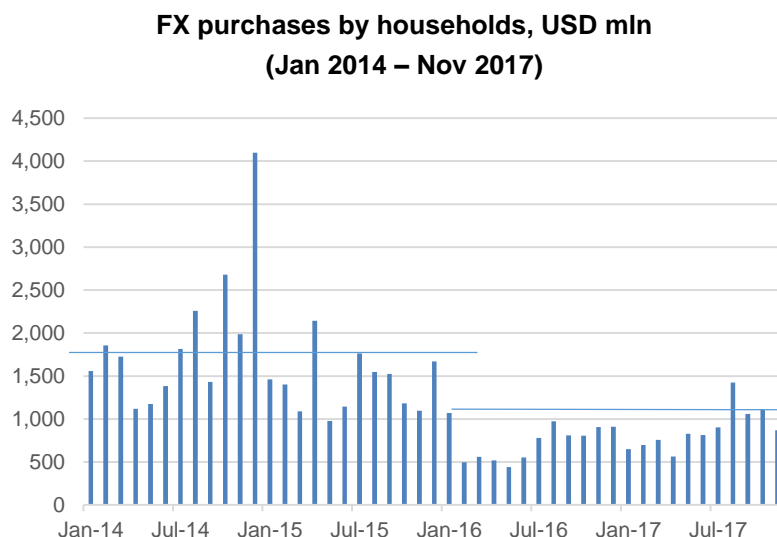
Source: Bloomberg, NBK, Samruk-Kazyna

In November, NBK did not intervene in FX market. Interventions were conducted in June (a 2.9% share in the total trading volume), in August (1.8%), September (2.1%) and October (10.6%), aimed at stabilizing the situation on the FX market and smoothing out the short-term and speculative fluctuations. According to NBK, it intervenes in the market when there is a sudden move of more than 1 tenge vs. the US dollar on “small” trading volumes of nearly USD10mln in order to limit the speed of FX rate move.



Source: NBK, Samruk-Kazyna

In November, the share of FX retail deposits in total retail deposits slid to 54.3% from 56.2% in October. The maximum recommended interest rate on retail deposits in tenge remained at 14%, while the interest rate on foreign currency deposits was reduced to 1% effective 1 December 2017. In addition, FX purchases by households at exchanges slid by 22% MoM to USD868mln in November, also demonstrating the general stabilization of households' devaluation expectations.



Source: NBK, Samruk-Kazyna

In the long-term, tenge will reflect fundamental factors, namely the balance of supply and demand for USDKZT, movement in the currencies of major trading partners, oil prices, the balance of payment, change in the base rate, inflation rate as well as interest rates on the international market. However, there is still a risk of elevated volatility, attributable to the “narrow” FX market with the limited number of market participants.

NBK highlighted a need to adapt the FX legislation to new economic environment due to (1) a special currency regulation regime at the territory of the International Center of Border Cooperation “Korgos” and the Astana International Financial Center, (2) a retention of proceeds received by residents abroad, (3) the expected expansion of commercial activities of foreign entities’ branches. The non-resident status for foreign entities’ branches will bolster significant volumes of FX flows in the domestic market, suppressing the effectiveness of NBK’s monetary policy. (NBK’s monetary policy guidelines for 2018).

In the international FX market, most emerging currencies appreciated vs. the US dollar in December. In thin pre-Christmas trading (on 22 December), a stabilization of US Treasury yields and increased commodity prices supported emerging markets’ currencies. However, the Mexican Peso was suppressed by the US tax reforms, a new corruption scandal and fresh signs of inflationary pressure (FT), leading to weakening by 1.5% to 19.76, the biggest one-day drop since October.

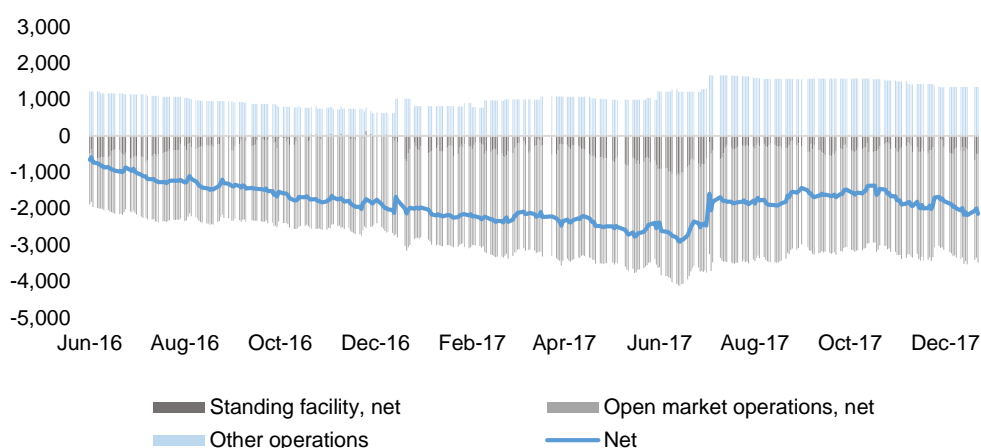
FX rates (Nov 2016 – Nov 2017)

Per 1 US dollar	22-Dec-17	2W Δ	1M Δ	6M Δ	1Y Δ
Kazakh tenge	332.7	0.5%	-0.7%	-1.7%	0.2%
Russia ruble	58.3	1.4%	0.2%	2.0%	4.0%
Chinese renminbi	6.58	0.7%	0.5%	3.9%	5.7%
Euro	0.84	0.8%	0.3%	6.0%	13.4%
British pound	0.75	-0.2%	0.3%	5.1%	8.9%
Swiss franc	0.99	0.5%	-0.6%	-1.9%	4.0%
Czech koruna	21.7	0.0%	-0.8%	8.1%	19.0%
Turkish lira	3.81	0.7%	2.9%	-7.9%	-7.6%
Australian dollar	1.30	2.7%	1.2%	1.9%	7.3%
Canadian dollar	1.27	0.9%	-0.3%	4.2%	6.6%
Japanese yen	113	0.2%	-1.8%	-1.8%	3.7%
Mexican peso	19.7	-4.2%	-5.6%	-8.8%	5.1%
Brazilian real	3.34	-1.3%	-3.4%	0.2%	-1.9%
South African rand	12.6	8.3%	9.5%	2.4%	10.3%
DXY Index	93.3	-0.6%	0.1%	-4.0%	-9.4%

Source: Bloomberg, Samruk-Kazyna

The money market is expected to experience structural liquidity surplus condition in 2018, with NBK conducting operations to absorb excess liquidity from the market through notes, repo auctions and deposits. The banking sector’s weak financial position (namely insufficient capitalization, weak asset quality) constrains a translation of excess tenge liquidity into the real sector of the economy. Excess tenge liquidity withdrawn stood at KZT2,138bln as at 22 December 2017, this compared to KZT2,011bln on 22 November.

Open position of NBK's operations, KZT bln (Jun 2016 – Dec 2017)



Source: NBK, Samruk-Kazyna

In 2018, NBK will continue implementing its monetary policy in line with the main principles of inflation targeting, maintaining price stability and fostering the long-term economic growth. In 2017, the base rate was reduced gradually to 10.25% from 12%, aimed at ensuring stability on the financial market. The base rate in real terms means that the base rate minus the forecasted inflation over a 12-month horizon will be maintained at the level not exceeding 4%, in line with the long-term potential rates of the economic growth. The next meeting on the base rate decision will be held on 15 January 2018.

On the international market front, the yield on Kazakhstan bonds due 2025 saw 11.4 bps spike on 21 December, the most since July, after BNY Mellon announced it froze USD22bln of Kazakhstan's National Oil Fund assets. Kazakhstan's 5-year CDS slid by 10.6bps to 109.285bps (the lowest level since mid-August 2007) on 22 December in the past two weeks, reflecting the low volatility in USDKZT.

Yields on the government bonds, % (Dec 2016 – Dec 2017)

Yields on sovereign bonds	22-Dec-17	2W Δ, bps	1M Δ, bps	6M Δ, bps	1Y Δ, bps
USD Kazakhstan 5.125% '25	3.3	11.5	-2.6	-39.7	-79.2
EUR Germany 0.5% '27	0.4	11.2	6.8	16.3	21.6
RUB Russia 8.15% '27	7.5	-5.0	-15.0	-21.0	-96.0
EUR France 0.75% '28	0.7	10.3	6.7	12.6	7.1
CNY China 3.59% '27	3.8	-3.3	-13.3	31.5	69.4
EUR Italy 2.05% '27	1.9	25.9	15.4	-0.7	6.2
EUR Netherlands 0.75% '27	0.5	12.2	7.3	6.3	17.1
GBP UK 4.25% '27	1.2	-3.9	-3.6	21.0	-10.1
TRY Turkey 10.5% '27	11.6	-1.0	-97.0	150.0	61.0
CZK Czech Republic 2.5% '28	1.6	1.0	-30.7	63.5	115.0
USD US 2.375% '27	2.5	9.5	14.3	33.2	n/a

Source: Bloomberg, Samruk-Kazyna

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