

Tenge strengthened on higher oil prices

Last week, USDKZT strengthened by 2.47% 319.42/USD on 16 February, while Russian ruble saw a 3.47% increase, reflecting a rebound in the US equity market as well as increased oil prices. However, an uncertainty on the global market remains, as evidenced by still elevated VIX index. The 60-day historical correlation between USDKZT and oil prices rose to 0.20 on 16 February, up from negative 0.06 on 2 February, implying the growing impact of oil prices on USDKZT. The yield on Kazakhstan bond due 2025 stood at 3.7% on 16 February, having increased by 25.7bps in the last two weeks.

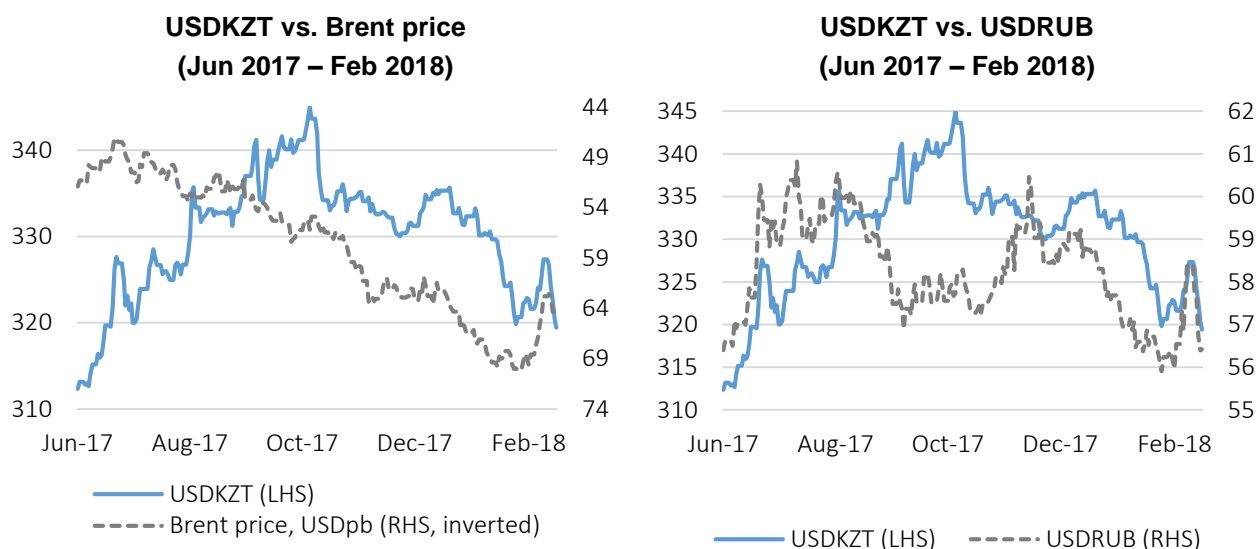
- USDKZT strengthened significantly by 2.47% to 319.42/USD on 16 February during the last week. Meanwhile, USDRUB strengthened by as much as 3.47% to 56.42/USD. Concurrently, Brent crude rose by 3.3% to settle at USD64.84pb, partially wiping out a more than 8% decline during the week ended 9 February.
- The 60-day historical correlation between USDKZT and oil prices was at 0.20 on 16 February, having increased from negative 0.06 on 2 February. This implies an elevated impact of oil prices on USDKZT. However, the indicator is still lower compared to the 60-day historical correlation between USDRUB and oil prices of 0.46.
- Market risk appetite rose last week, supporting emerging currencies. Meanwhile, the US dollar was at 88.593 on 15 February, the lowest level since mid-December 2014, amidst the market concerns over the US current account and budget deficits.

FX market	16-Feb-18	2-Feb-18	17-Jan-18
USDKZT	319.42	321.62	327.1
RUBKZT	5.66	5.72	5.78
USDRUB	56.42	56.5	56.9
EURKZT	396.6	401.3	397.6
EURUSD	1.2406	1.2463	1.2186
DX Index	89.1	89.2	90.5
NDF USDKZT 3M, %	7.3	6.2	5.1
USDKZT 30D historical volatility	6.18	5.30	4.99
Money Market	16-Feb-18	2-Feb-18	17-Jan-18
TONIA, %	8.75	8.76	8.75
TONIA volume, KZT bln	220.7	225.2	385.1
TWINA, %	8.75	8.75	8.86
TWINA volume, KZT bln	24.9	26.9	7.6
SWAP 1D, %	n/a	8.72	7.24
SWAP 1D volume, USD mln	n/a	32.9	45.3
SWAP 2D, %	8.32	8.78	8.52
SWAP 2D volume, USD mln	354.2	139.3	114.3
MM Index, %	8.75	8.75	8.60
Base rate, %	9.75	9.75	9.75
KASE indices	16-Feb-18	2-Feb-18	17-Jan-18
KASE Index	2,327	2,356	2,337
KASE BY, %	9.5	9.5	9.5
NBK open position	15-Feb-18	2-Feb-18	17-Jan-18
Standing facility, KZT bln	-623	-390	-511
Open market operations, KZT bln	-4,057	-4,101	-3,771
Other operations, KZT bln	1,198	1,198	1,198
NBK's net position, KZT bln	-3,482	-3,293	-3,084
Correspondent accounts	221	167	180
Commodities	16-Feb-18	2-Feb-18	17-Jan-18
Uranium, USD/lb	21.8	22.2	23.5
Brent crude, USD/pb	64.8	68.6	69.0
Net long contracts on Brent, mln bbl	554	583	565
Credit&Deposit rates	Dec-17	Nov-17	Oct-17
Corporate KZT loans rate, %	13.2	13.4	13.5
Retail KZT loans rate, %	19.2	18.9	19.2
Corporate FX loans rate, %	5.8	5.4	4.3
Retail FX loans rate, %	7.3	8.2	15.5
Corporate KZT deposits rate, %	8.0	7.9	8.0
Retail KZT deposits rate, %	10.5	10.3	11.5
Corporate FX deposits rate, %	1.2	1.3	1.4
Retail FX deposits rate, %	2.1	2.1	2.1

Source: Bloomberg, KASE, NBK, Samruk-Kazyna

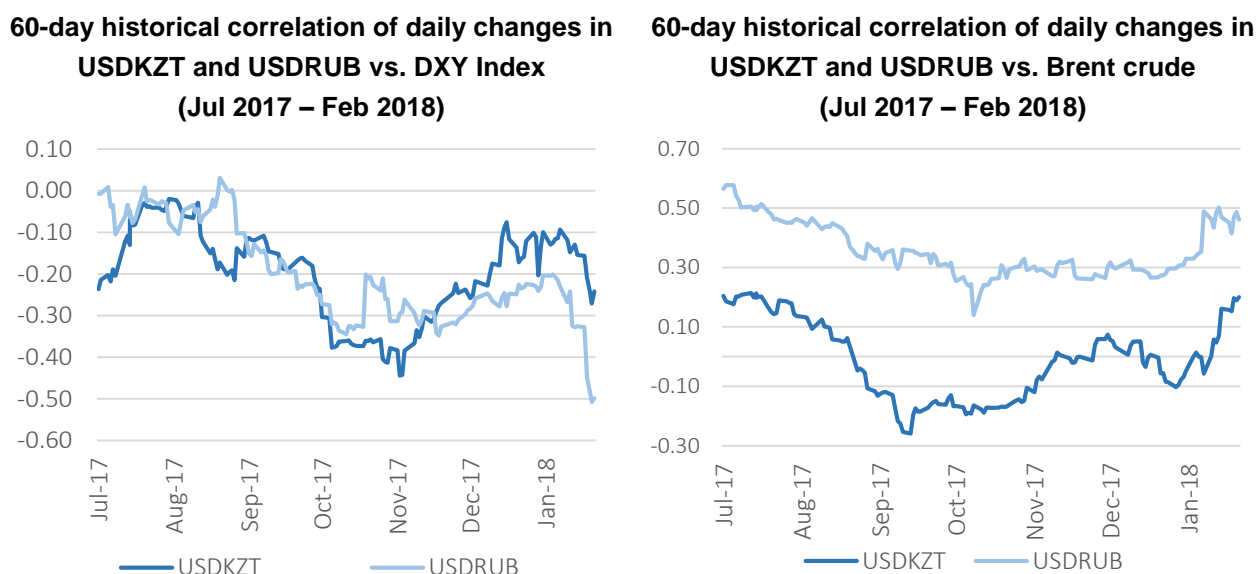
1. FX market

USDKZT strengthened significantly by 2.47% to 319.42/USD on 16 February during the last week. Meanwhile, USDRUB strengthened by as much as 3.47% to 56.42/USD. Concurrently, Brent crude rose by 3.3% to settle at USD64.84pb, partially wiping out a more than 8% decline during the week ended 9 February. 30-day historical volatility in USDKZT was at 6.18%, having changed marginally from 9 February. It is worth noting that sovereign five-year credit default swaps were at 86.175bps, the lowest level since end-August 2007.



Source: Bloomberg, NBK, Samruk-Kazyna

The 60-day historical correlation between USDKZT and oil prices was at 0.20 on 16 February, having increased from negative 0.06 on 2 February. This implies an elevated impact of oil prices on USDKZT. However, the indicator is still lower compared to the 60-day historical correlation between USDRUB and oil prices of 0.46. The correlation between USDKZT and DXY index was at -0.24 (USDRUB: -0.50).

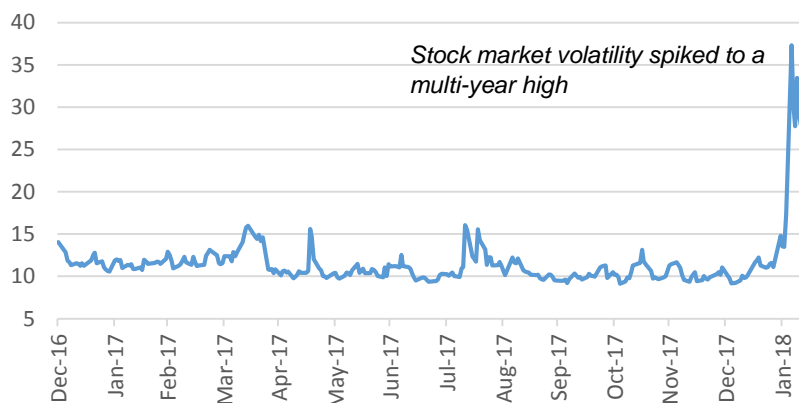


Source: Bloomberg, NBK, Samruk-Kazyna

Money Market Updates – Tenge strengthened on higher oil prices

On the international financial market, the US equities rebounded during the last week with the S&P 500 gaining 4.3%, its biggest weekly advance since January 2013 (Dow Jones: 4.25%, Nasdaq: 5.31%). However, the market views the US stocks are unlikely to return to “the unusually calm conditions seen last year” (Reuters, 2018). The VIX slipped to 17.60 on 16 February after reaching a 2.5-year high of 50.30 on 6 February. However, the indicator is still well above the record low of 8.56 in November.

Cboe Volatility Index VIX* (Dec 2016 – Feb 2018)



Source: Bloomberg, Samruk-Kazyna

* The CBOE Volatility Index is the most widely followed barometer of expected near-term volatility in the S&P 500. Value of VIX at 15 implies a daily move of approximately 0.8% in the S&P 500 (at USD2,744).

The rebound in the US equity market, as well as weak US dollar, underpinned oil prices with Brent oil gaining more than 3% last week. However, Brent crude oil is still lower compared to USD68.6pb on 2 February. A record high concentration of hedge fund long positions poses a risk of abrupt decline in oil prices. That said, money managers reduced their long positions on ICE Brent crude oil futures to 554 mln barrels in the week to 13 February from 583 mln barrels on 5 February.

FX rates (Feb 2017 – Feb 2018)

Per 1 US dollar	16-Feb-18	1D Δ	1W Δ	2W Δ	1M Δ	6M Δ	1Y Δ
Kazakh tenge	319.4	0.31%	2.47%	0.69%	2.40%	4.19%	-0.68%
Russia ruble	56.4163	-0.04%	3.47%	0.22%	0.79%	4.50%	1.79%
Chinese renminbi	6.3415	0.00%	-0.60%	-0.64%	1.46%	5.19%	8.55%
Euro	0.8060	-0.79%	1.27%	-0.40%	1.81%	5.50%	17.75%
British pound	0.7124	-0.44%	1.52%	-0.59%	1.47%	9.04%	12.54%
Swiss franc	0.9270	-0.54%	1.25%	0.47%	4.20%	4.06%	8.92%
Czech koruna	20.4410	-0.83%	1.38%	-0.89%	1.87%	8.49%	25.45%
Turkish lira	3.7471	0.46%	1.92%	0.59%	1.91%	-6.10%	-3.38%
Canadian dollar	1.2558	-0.61%	0.18%	-1.03%	-0.96%	0.22%	4.64%
Japanese yen	106.2100	-0.08%	2.44%	3.73%	4.78%	2.80%	7.03%
Mexican peso	18.5249	-0.13%	0.95%	0.38%	1.03%	-4.40%	8.04%
Brazilian real	3.2311	0.02%	2.17%	-0.37%	-0.27%	-2.60%	-4.17%
South African rand	11.5960	0.21%	3.43%	4.24%	6.06%	13.47%	13.30%
DXY Index	89.1000	0.57%	-1.48%	-0.11%	-1.59%	-4.64%	-12.10%

Source: Bloomberg, Samruk-Kazyna

Money Market Updates – Tenge strengthened on higher oil prices

Market risk appetite rose last week, supporting emerging currencies. Meanwhile, the US dollar is on track for its fifth weekly loss out of seven weeks this year. Last week DXY Index saw a 1.48% decline and settled at 89.1 on 16 February. This could be attributable to the market concerns over the US current account and budget deficits. The latter is expected to inflate to approximately USD1tn in 2019 (Reuters).

Favorable external conditions and forthcoming tax payments by exporters are expected to support the ruble. The most of tax payments are due on 26 February (MET, VAT and excise taxes) and 28 February (income tax). However, the Ministry of Finance's budget rule and remained uncertainty on the international market limit the potential upside of the ruble. The Ministry of Finance purchases FX currency in the amount of RUB298.1bln in the period of 7 February – 6 March (16 January – 6 February: RUB257.1bln).

On 12 February, the Central Bank of Russia cut its key interest rate by 25 bps to 7.5% from 7.75%, as (1) annual inflation remains sustainably low at 2.2% in January and (2) inflation expectations are diminishing progressively. "This year annual inflation is much less likely to exceed 4%. In this environment, the Bank of Russia will continue to reduce the key rate and may complete the transition from moderately tight to neutral monetary policy in 2018" (CBR, 2018).

2. Fixed income market

The yield (which move inversely to bond price) on Kazakhstan bond due 2025 stood at 3.7% on 16 February, having increased by 25.7bps in the last two weeks. The recent global stock sell-off triggered an increase in yields on the emerging markets' bonds. On the global front, the US Treasury yields hit four-year highs and the US inflation was stronger-than-expected in January, bolstering expectations that the Federal Reserve might increase interest rates four times in 2018.

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

Issuance	16-Feb-18	1D Δ, bps	2W Δ, bps	1M Δ, bps	6M Δ, bps	1Y Δ, bps
USD Kazakhstan'25 5.125%	3.7	-6.3	25.7	34.2	15.0	-22.6
USD Kazakhstan'44 4.875%	4.8	-5.0	35.9	50.1	7.0	-26.2
EUR Germany'28 0.5%	0.7	-5.7	-6.1	14.3	29.0	40.5
USD Russia'47 5.25%	5.0	-7.5	13.2	14.7	-8.5	n/a
USD Russia'27 4.25%	4.1	-4.3	19.5	36.1	14.5	n/a
RUB Russia'28 7.05%	7.0	-5.0	-15.0	-37.0	-72.0	-112.0
EUR France'28 0.75%	0.9	-5.5	-6.5	11.3	24.0	-13.2
CNY China'27 3.82%	3.8	n/a	-5.0	-9.4	24.2	49.4
EUR Italy'27 2.05%	2.0	-8.1	-5.8	-1.1	-4.7	-24.2
EUR Netherlands'27 0.75%	0.7	-4.7	-4.7	15.7	20.8	12.8
GBP UK'27 4.25%	1.6	-6.5	0.4	27.3	49.3	34.6
TRY Turkey'27 10.5%	11.6	-6.0	24.0	-14.0	113.0	107.0
CZK Czech'28 2.5%	1.8	-0.5	-4.4	-3.5	90.1	123.6
USD US'27 2.375%	2.9	-3.3	5.2	31.0	70.0	n/a

Source: Bloomberg, Samruk-Kazyna

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