## Main Talking Points of Aliya Moldabekova, Deputy Governor of the National Bank about the Situation in the Currency Market in January

**The start of vaccination gives some hope for a solution to the Covid-19 situation. At the same time, the more rapidly spreading strain of the coronavirus has increased concerns about the pace of the global economic recovery due to the new lockdowns.**

### The Situation in the External Markets in January

The dynamics of the world financial markets in the past month was mixed.

In the first two decades of January, there was an increase in the stock indices due to prospects for the adoption of the next stimulus package for the US economy and a decrease in the US dollar index caused by the rising inflationary expectations, comments from the regulator about the prospects for maintaining the low rates. At the beginning of the month, the commodity markets also showed a positive dynamics. On January 5, the OPEC + countries reached a compromise solution to cut oil production. Saudi Arabia announced a voluntary reduction in production by 1 million barrels per day in February and March, which also supported the oil market. For the first time, oil prices reached the levels that we saw before the pandemic and reached the level above $57 per barrel.

However, the last week of the month was marked by a surge in volatility in the stock markets as a result of the speculative deals by the non-professional traders with a number of companies such as GameStop. The US stock market volatility index rose by 11 percentage points, from 22% to 33%. In addition, the market pessimism was also driven by the deteriorating projections for the vaccination timing and uneven distribution of vaccines. The high incidence of Covid-19 in the world is still a major factor in volatility. At the end of January, the decline in the S&P 500 index was 1.1%.

Despite the fact, that the rise in the price of the Brent crude for the month amounted to almost 8% with the agreed restrictions on oil production, the pace of recovery in demand for hydrocarbons brought some objective doubts. For example, the data on the road transport in China showed a decline to the levels of the strict quarantine period in March 2020.

### The Impact of the Foreign Markets' Situation on the Dynamics of the National Currency

The dynamics of the tenge exchange rate in January corresponded to the trends in the world markets. The active growth in the oil prices and the global weakening of the US dollar at the beginning of the month led to strengthening of the tenge to the level of 418.94. For the most of the month, the exchange rate was formed in a narrow range between 418.4 and 420.8.

By the end of the month, the tenge weakened to 424.2, or by 0.8% from the beginning of the year, amid the global risk aversion, strengthening of the US dollar and the falling of the stock indices. The currencies of the most developing countries also showed the negative dynamics over the month: the Brazilian real weakened by 5.4%, the Mexican peso - by 3.3%, the South African rand - by 3.2%, and the Russian ruble - by 2.5%.

The total trading volume on the Kazakhstan Stock Exchange fell to $2.2 billion in January 2021 from $2.5 billion in December 2020.

In general, the market was formed under the influence of the fundamental factors. Given that, the National Bank did not need to make any interventions.

Some support to the national currency was provided by the sale of the foreign currency from the National Fund as part of the provision of transfers to the budget. The volume of these sales amounted to $720 million, as well as the sale of the foreign exchange earnings by the quasi-public sector in the amount of $206 million.

**The Impact of the Unstable Geopolitical Situation in the Post-Soviet Space, Particularly in Russia, on the Local Foreign Exchange Market**

We have already mentioned that the relationship between the exchange rate of the tenge and the ruble exists, although it is not linear. The sanctions risks that Russia currently is experiencing are specific and do not have a direct impact on the local currency market. However, with the continued deterioration of the sanctions rhetoric, the weakening of the ruble, which is the currency of one of the main partners of Kazakhstan, may negatively affect the tenge exchange rate.

It should be noted that in the event of an additional outflow of the portfolio investors from the Russian market, a part of non-residents may come to the debt market of Kazakhstan. By the end of January, we have already noticed an influx of the foreign investors. The volume of non-residents in the government securities of the Republic of Kazakhstan increased by 191 billion tenge and reached 604 billion tenge ($1.4 billion dollars). The international analysts continue to positively assess the debt and foreign exchange market of Kazakhstan and make recommendations for the purchase of the assets in the national currency, noting the attractiveness of the rates and the improvement in the external factors for the tenge.

**Gold and Foreign Exchange Reserves in January**

The gold and foreign exchange reserves at the end of January of current year, according to the preliminary data, amounted to $35.6 billion, practically staying unchanged from the beginning of the year.

At the same time, the assets in the freely convertible currency increased due to the inflow of funds from the Asian Development Bank loan in the equivalent of $0.9 billion. The influence of this factor was offset by the payment of the external debt in the amount of about $100 million and a decrease in the funds of the second-tier banks from accounts with the National Bank by almost $500 million. The outflow of funds of the second-tier banks from accounts with the National Bank is mainly related to the fulfillment of obligations to redeem the foreign currency bonds of one of the second-tier banks.

The gold portfolio declined by $0.3 billion, which occurred due to the decline in the gold prices since the beginning of the year, or from $1891 to $1853 per ounce, or by 2%. The progress in the vaccine development and business recovery are among the main reasons for the fall in the price of gold as a defensive asset.

**The Factors that Influenced the Size of the National Fund's Assets in January**

According to the preliminary data, at the end of January, the National Fund's foreign exchange assets amounted to $57.7 billion, having decreased by $ 1 billion since the beginning of the year.

The main reason for the decrease in the volume of the National Fund was the allocation of transfers to the budget, the volume of which amounted to 381 billion tenge (equivalent to $900 million dollars). As I have already noted, for these purposes, $720 million dollars were sold in the foreign exchange market, which is equivalent to about 300 billion tenge, and the rest of the transfers were made at the expense of balances in the tenge account, which were accumulated mainly due to the receipts to the National Fund in the last two months of 2020.

At the end of January, the investment income of the National Fund was negative and amounted to (-) 340 million US dollars or (-) 0.6%. Of this, about $150 million is attributable to a decrease in the equity portfolio and $140 million to a decrease in the bond portfolio of the developed countries. The main reasons were the fall in the global stocks index of the developed countries MSCI World in January by 1% and the negative yield on the bond index of the developed countries (-) 0.43%.

Already in early February, there was a recovery in the stock market and in the first 5 days of February the investment income of the National Fund amounted to $440 million, paring the losses of parr January.

**The Factors that MayDetermine the Market Sentiments and Dynamics of the Markets in the Near Future**

The pace of the global economic recovery continues to directly depend on the situation with the coronavirus. Despite the optimism associated with vaccination, and generally positive data on the vaccine efficacy, a number of risk factors remain: the emergence of new, more infectious virus strains, slow vaccination rates, difficulties in the supply and production of vaccines, and the so-called “vaccinalism”. The World Health Organization accuses some developed countries of buying up the most of the vaccine supply, which is many times larger than their population, warning that such actions could leave the poorest countries without access to vaccines at all.

The vaccine availability problems and a large difference in the vaccination rates lead to its unevenness: for example, Israel has already vaccinated 60% of its population with one or more doses of vaccines, the UK is almost 19%, the USA is more than 12%, while in India this figure is much lower, and is less than 1%. Acceleration in the pace of vaccination and increasing the availability of vaccines for developing countries to acquire herd immunity is a prerequisite for the gradual lifting of the restrictive measures.

The situation in the oil market is improving, since the beginning of February, the price of the Brent crude oil has rose from $55.9 to $59.8, or almost by 7%. However, the demand for petroleum products is recovering slowly as there is still a long way to restoring air links and car travel. Therefore, the discipline of oil production among the OPEC + countries is still extremely important for pricing. The uncoordinated growth in oil production by producers could quickly lead to a surplus of oil amid a weak recovery in demand.

The financial markets continue to be supported by the ultra-soft policy of the central banks. The premature withdrawal of stimulus by the central banks or major governments could have a major impact on the still fragile global economic recovery. Recall that President J.Biden and the Democratic-controlled US Congress are promoting an additional fiscal package of $1.9 trillion. Last week, the legislators passed a budget resolution to deliver the Biden's promised plan in the coming weeks without the Republicans' support.

Despite the outlined risks and continuing volatility, the markets are generally positive, and we have seen an increase in the stock indices and an increase in oil prices since the beginning of February. This contributes to the increased risk appetite of investors towards currencies and financial instruments of the emerging markets.