

Rhetoric of the US FRS and its Influence on World's Financial Markets

Deputy Director of the Monetary Operations Department at the National Bank Ivan Serdyuk has commended how drastic global enhancement of the USD exchange rate on global markets affected tenge.

- After tenge became stronger at the beginning of the week up to 425.64, the exchange rate is falling down again. What are the reasons of such fluctuations?

Indeed, positive dynamics of the KZT exchange rate was interrupted today, trading opened with its weakening down to 426.67 (or a 0.24% loss from the previous close).

Due to acceleration of inflation, global markets are closely monitoring the rhetoric of world's central banks for tighter monetary conditions. This was confirmed by a last meeting of the US Federal Reserve System.

Tonight, the US Federal Reserve System put on hold the target range of the key rate within 0-0.25% corridor, while raising 2021 inflation forecasts from 2.4% up to 3.4%. As a result of the meeting, 13 out of 18 representatives of the Open Market Committee expect a key rate will go up in 2023, and 7 representatives see the first increase in the rate in 2022. As a result, median of the key rate forecasts at the end of 2023 rose from 0.12% to 0.63%. Additionally, an official discussion began on a phased rollback of an asset purchase program.

In conditions of revised inflation forecasts and expectations of the rate increase from the FRS, the USD index against basket of currencies of developed countries (DXY) gained 1% for a day. Yield on US Treasury bonds rose by some 10 bp daily, which also supports enhancement of the USD.

Tightening of rhetoric of the US FRS is a risk factor for all the currencies of the emerging markets. Growing US Treasury yields are contributing to global enhancement of the USD. More than 20 currencies of emerging markets have weakened after the meeting of the US FRS Market Committee. For example, from June 15 to June 16, South African rand lost 1.9%, Mexican peso fell down by 1.8%, Turkish lira and Russian ruble dropped by 0.6%.

Dynamics of the Russian ruble was quite volatile on June 16. After the first talks between the presidents of the United States and the Russian Federation in Geneva, the ruble briefly strengthened up to 71.63, as investors positively assessed an agreement on return of ambassadors to Moscow and Washington. Later, the ruble slacked down to 72.65 per dollar.

Additionally to the general weakening trend in currencies of emerging markets, the decline in oil prices became a negative factor for tenge.

Oil price on June 16 rose to USD 74.9 per barrel for the first time since 2019. However, as of the morning of June 17, the price edged down by 0.7% to USD 73.9. Global appreciation of the USD also has some pressure on oil. Decline in the oil prices was constrained by data on declining stocks, which reached March 2020 levels. Easing restrictions in California, declining new cases of virus, and increasing population mobility have impacted stocks.

Despite June 17 adjustment, trend for KZT remains positive. Since the beginning of the week, the national currency has gained 0.48 KZT (from 427.15 to 426.67 per USD).