

Why oil prices go up but tenge stays put

*Since the beginning of June, KZT exchange rate has been traded within the range of 425.6 - 428.7 KZT/ USD despite a marked growth of oil prices. Why tenge does not get stronger following oil and how events in global markets affect dynamics of the exchange rate, commented **Aliya Moldabekova**, Deputy Governor of the National Bank.*

Indeed, today positive developments dominate the oil market, which is reflected in a barrel price. Oil prices have exceeded USD 75 per barrel, reaching USD 75.90 for the first time in the last 2 years. Growth in oil prices is supported by decreasing reserves at storage facilities and investors' hopes for an increasing demand in summer period due to gradual lifting of travel restrictions.

However, a number of internal factors exert a restraining effect on tenge.

First, demand for foreign currency is steadily supported by recovery of business activities and implementation of a deferred demand for imports of goods which had a standstill during the lockdown period. In particular, deferred demand for capital goods and intermediate goods is taking place.

A clear indication of recovery in economic activities and a growing demand for foreign currency is an increase in trading volumes on the Kazakhstan Stock Exchange. In January-May 2021, an average daily trading volume totaled 125 million, while in June it soared up to USD 146 million.

Imports in January-April 2021 rose 11.5% year-on-year and reached USD 11.4 billion due to imports of consumer non-food products and capital goods. If we talk about real examples, the sharpest growth was demonstrated by import of cars, delivery of which expanded by 200 million USD vs. a year earlier. Household appliances are also among top imports to Kazakhstan: computers, monitors and projectors, telephones, refrigerators.

About 40% of all the imported goods are brought from Russia, and this trend is growing. In January-April 2021, imports from Russia rose by 16% versus January-April 2020. Growing prices for goods imported from Russia and corresponding expectations of our business affect an increasing volume of purchases.

Second, it is necessary to mention seasonality. Of course, given the ongoing spread of coronavirus and continuing restrictive measures, growth in demand for currency associated with holiday season is not so significant but it is still present.

Also, in the first half of June, period for payment of dividends came to an end, mainly we are talking about companies with a share of foreign capital. That is, these companies convert shareholder dividends into foreign currency for transfers abroad to holding companies. This directly affects the exchange rate since demand for currency grows during such periods.

Third, demand for currency continues to be supported by influence of fiscal stimulus and use of pension savings.

From a viewpoint of supply, we don't see sweeping changes. Main sources of currency sales remain exporting companies and conversion of assets of the National Fund to make transfers to the budget.

All these factors affect a balance of supply and demand in the foreign exchange market. The current increased demand for foreign currency does not allow tenge to get stronger despite relatively high oil price.