

Concerning Current Situation with KZT Exchange Rate

Nurzhan Tursunkhanov, Director of NBK Monetary Operations Department, has commented on a situation in the foreign exchange market and reasons behind KZT weakening.

- What is a reason behind current weakening of the tenge and why has the national currency failed to get stronger despite high oil prices?

- Current weakening of the tenge, which we have been witnessing since the end of this October, is mainly due to a significant correction in the oil market. Since October 26, the oil price reached its 2018 peak levels of USD 86 per barrel, has interrupted the upward trend and began to decline. In less than 2 weeks, the price dropped to USD 81 or down by 5.8%. During the same period, the national currency weakened from 425.07 to 429.74 KZT/ USD or by 1.1%.

Despite the fact that OPEC+, following the meeting on November 4, retained its previous agreements on a monthly increase in oil production by 400 thousand barrels daily, oil quotes are under pressure in connection with the appeal of the US President to OPEC member countries to increase oil production. The US presidential administration believes that high gasoline prices due to limited oil production and increased demand for petroleum products threaten recovery of the global economy and facilitate growth of the global inflation.

In the longer term, despite a significant recovery in the oil price since the beginning of the year, there is no appreciation of the tenge. Undoubtedly, the oil price remains one of the main fundamental factors for the KZT exchange rate because it is the oil price that directly affects supply of foreign currency in the domestic market. However, current account of the balance of payments, which reflects fundamental factors influencing the exchange rate, remains in deficit, one of the reasons behind which is growing imports of consumer goods.

It is also necessary to indicate that along with the growth of foreign currency export earnings, there is an equivalent appetite for foreign currency due to recovery of the economic activity, factor of deferred demand after quarantine restrictions, fiscal stimulus and use of pension contributions. Thus, factors of demand in the domestic foreign exchange market offset growth of foreign exchange earnings in the country due to rising oil prices.

Another important factor that negatively affects KZT exchange rate is a negative risk sentiment among investors towards emerging markets. Thus, since the beginning of the year, index of EM currencies against the USD has lost 5.5%, which is primarily connected with the trend of appreciating USD in response to beginning of curtailment of the Fed's quantitative easing program. Let me remind you that on November 3, the Federal Open Market Committee of the Federal Reserve announced that it would scale back the bond purchase program by USD 15 billion a month from its current USD 120 billion. Moreover, due to persisting inflationary pressures, market expectations point to the first increase in the Fed's key rate as early as September 2022.

The situation when currency of the oil-exporting country fails to appreciate following the rise in energy prices is not unique for the tenge. Most of the currencies of commodity emergency markets, despite the global rise in commodity prices this year, have failed to demonstrate significant improvement since the beginning of the year. The Bloomberg Commodities Index has increased by almost a third (+ 32%) since the beginning of the year, oil quotes are up 58% but the Brazilian real lost 6.9% of its value, the South African rand - 3.9%, the Mexican peso - 3.2 %, the Indonesian rupee - 1.9%.

Under the current free floating regime, market participants on their own form the exchange rate of the national currency. Therefore, despite the fact that KZT dynamics do not sufficiently reflect growth of oil prices, free formation of the KZT exchange rate ensures the market value and balance of the market, avoiding accumulation of imbalances.