

Foreign exchange market Situation

Global financial markets are in fever following news of emergence of a new strain of coronavirus in South Africa. Nurzhan Tursunkhanov, Director of NBK Monetary Operations Department, spoke about development of the situation in the market of energy resources and emerging markets currencies.

Discovery of a new coronavirus strain in South Africa and initiation of an airtraffic ban by several countries caused a collapse of oil prices, equities and emerging market currencies last Friday.

The South African strain hit the radar of scientists only three days ago but has already caused serious concerns for the World Health Organization. Large number of mutations in the new strain raise concerns about its heightened contagiousness and resistance to existing vaccines. Britain, Singapore, Austria, Israel, Hong Kong were among the first countries to temporarily suspend flights from South Africa due to identification of the new strain. The European Commission is preparing a similar recommendation for the entire European Union. As a reminder, starting from Monday last week, three European countries at once launched a lockdown due to an abrupt splash surge in the incidence of coronavirus infections.

On fears of a plummeting drop in demand for fuel due to possible widespread introduction of new restrictive measures Brent crude oil price fell by 11.6% from USD 82.2 to USD 72.7 per barrel. The oil market was already under pressure after coordinated actions of the United States and other fuel consuming countries to sell oil from strategic reserves, but obvious deterioration of the situation with the coronavirus caused a collapse in prices.

Drastic deterioration in investor sentiment and a subsequent risk-off in the financial markets did not pass by the equity markets either. On Friday, the European stock index Euro stoxx 50 fell by 4.8%, the Japanese Nikkei 225 dropped by 2.5%, and the US S&P 500 closed 2.3% lower.

The increased volatility and risks associated with the new coronavirus strain are supporting further strengthening of the US dollar and other defensive currencies. Exchange rate of the Russian ruble, the key trading partner of our country, weakened by 1.2% from 74.6 to 75.6 RUR/USD at the end of Friday as a result of falling oil prices and increasing geopolitical uncertainty around Ukraine. Overall, EM currencies are down by 4.6% since the beginning of November, and DXY has appreciated by 2.1% against developed-market currencies.

In today's Asian session, markets have demonstrated some correction against on statements by Moderna and Pfizer pharmaceutical companies about possibility of adapting their vaccines to the new strain as soon as possible. Thus, price for Brent crude oil opened with an increase of 3.08% to USD 74.96 per barrel.

In response to the negative sentiment from external markets and falling oil prices, tenge opened today with its weakening to 433.50 KZT/ USD, or down by 0.4% from Friday.

Further oil dynamics will largely depend on an upcoming OPEC+ meeting scheduled for December 2, by which participants will have to assess possible negative effect of the spread of the new Covid-19 strain. If a decision to suspend increase in production is made, this will support oil prices and currencies of oil exporting countries.

We believe that uncertainty surrounding the new strain will remain until the official test results are released, which should clarify a level of contagiousness, lethality of the strain and, importantly, effectiveness of the existing vaccines against this strain.