

Keynote Thesis of Aliya Moldabekova on Dynamics of Tenge Exchange Rate and Recent Trends on Financial Markets

Regarding the major events that influenced dynamics of foreign markets in August

Dynamics on foreign markets during the month was ambiguous and multidirectional. In early August, geopolitics factor became dominant for dynamics of financial markets in connection with a visit of the US Speaker of the House of Representatives to Taiwan. Tensions between the US and China caused investors to flee from risky assets. This entailed improvement of the USD and the rise in gold prices.

However, release of data about a decline in the inflation rate in the US briefly supported the risk sentiment and gave hope for an early turn in the policy to tighten conditions of the US Fed. By the end of the month, Jerome Powell's speech disproved those hopes. The head of the Fed warned about risks that could lead to premature easing of the regulator's policy. As a result, rally in the USD exchange rate resumed with renewed vigor. DXY index hit a new 20-year high of 109.48 points on August 29, up 2.6% for the month. With dominance of the USD, fall of the euro below parity in August became the 'new normal'.

Along with tough rhetoric of the US Fed, the Bank of England and the Central Bank of Australia revealed their commitment to raise rates. Regulators have increased rates by 50 bp. The ECB also announced its readiness for another significant rate increase at the next meeting.

Thus, against the background of risks of appreciation of monetary conditions, volatility returned to stock markets. After impressive gains in July, the MSCI World Index fell by 4.3% in August.

Oil quotes in August also fell by 12.3%. This drop was amid the signs of slowdown in global industrial production and the risks of further rate hikes by leading central banks. Thus, industrial production in China slowed down to 3.8% y/y against the expected 4.3% and 3.9% reported in the previous month. Business activity in the US fell to 45 points (S&P US PMI). The factor of pressure on oil quotes in the middle of the month was also an expectation of reaching an agreement on a nuclear deal between the US and Iran. However, as analysts say, this scenario is unlikely due to unresolved disagreements. According to Goldman Sachs calculations, return of the Iranian oil to the global market could reduce its price forecast for 2023 by USD 5-10 from the current forecast of USD 125.

In early September, oil quotes rose slightly to USD 95. This happened against the background of an unexpected decision by OPEC+ to cut the output by 100,000 barrels in October.

Regarding the main factors of influence on KZT exchange rate and situation in the foreign exchange market

In August, KZT gained 1% of its value to 472.29 KZT. Sales of foreign currency by exporters for quarterly tax payments contributed to a moderate

enhancement of the KZT exchange rate. Thus, internal factors had a predominant impact on the foreign exchange market.

Entities in the quasi-public sector sold USD 469.5 million through second-tier banks. Against the background of market balance, the National Bank did not carry out foreign exchange interventions. The transfer from the National Fund to the budget was provided with tenge receipts, thus the sale of foreign exchange assets of the National Fund was not required.

Regarding the dynamics of gold and foreign exchange reserves

According to tentative data, volume of gold and foreign currency assets at the end of the month amounted to USD 32.7 billion. In August, we saw a slight decline in the gold and foreign currency assets by USD 131 million. This was connected with falling prices for the precious metal by 2.6% to USD 1,712.40 per troy ounce. Gold prices are still under pressure amid expectations of further tightening of the Fed's monetary policy.

It is remarkable that, to a large extent, the decrease in the gold portfolio was offset by a growth in the foreign exchange part of the gold and foreign currency assets due to an inflow of second-tier banks' funds to foreign currency accounts with the National Bank.

Regarding the factors that influenced volume of foreign exchange assets of the National Fund in August

According to preliminary data, in August, volume of foreign exchange assets of the National Fund made USD 53.8 billion, with an increase of USD 500 million.

Last month, 384 billion KZT were allocated from the National Fund to the republican budget as transfers. The main part of the transfers was allocated from tenge receipts to the fund in the amount of around 338 billion KZT, as well as from the balance on the tenge account of the National Fund. Thus, as mentioned earlier, last month the National Bank did not sell foreign exchange assets of the National Fund on the domestic foreign exchange market. Along with that, foreign exchange earnings to the fund in August amounted to USD 1.76 billion.

According to last month's results, investment income of the National Fund was in the negative zone. I would repeat that the decline in the bond and stock market is due to a global outflow of capital into money market instruments. This happened against the background of the ongoing tightening of monetary policy by the world's leading central banks. Along with that, long-term profitability of the National Fund since its establishment in annual terms is 3.05%.

Regarding further prospects for development of situation on financial markets

Global currency market has expectations about likely further appreciation of the USD after a speech delivered by Fed's Chair at the annual Jackson Hole Economic Symposium. The US regulator is not yet considering reduction in the pace of rate hikes. This decision is likely to continue global appreciation of the USD and have a negative impact on emerging market currencies.

As for the oil market, there was divergence of opinions among the analysts. Some economists, in particular Goldman Sachs, expect that oil prices will continue to grow. In their opinion, cost of the 'black gold' will rise due to an increased demand after quarantine measures and use of oil as a replacement for rising gas prices.

Along with that, given current dynamics, analysts slightly adjusted their price forecast for the end of the year from USD 130 to USD 125 per barrel. The most pessimistic forecasts remain at USD 85 per barrel amid recession risks.