

Weekly For€x Review

September 25-29, 2023





In September, we observed a weakening of the tenge exchange rate against a basket of foreign currencies. So the **exchange rate of tenge against the US dollar** weakened by 3.2% in September and amounted to 474.5 tenge per dollar. Such dynamics of the tenge exchange rate are due to the adjustment of the balance of supply and demand due to the withdrawal of internal support factors.

The first **factor** was the abolition of the requirement for mandatory conversion of a part of the foreign exchange earnings of quasi-public sector entities (previously, the share of mandatory sales was 30%), which provided over 10% of the currency supply only on the exchange market. Such volumes of currency supply smoothed the fluctuations of tenge in response to the deterioration of fundamental foreign economic factors. The continued positive dynamics of economic growth and a decrease in price pressure at a high base rate contributed to a decrease in the devaluation household expectations, as well as an increase in interest in tenge assets. Since the beginning of the year, we have observed a flow from foreign currency to tenge deposits, as well as relatively low volumes of net purchases of currency in exchange offices. This policy stimulated the growth of the attractiveness of investments for non-residents in government securities. The combination of the above factors led to a long-term strong position of the tenge - it fluctuated at the level of 440-455 tenge per dollar.

The change in the rhetoric of the National Bank that followed at the end of August was a signal of the transition to a policy of easing monetary conditions,

where the first step was to **reduce the base rate** to 16.5% after an 8-month maintenance of the base rate at the same level (16.75%) caused a market reaction. There was significant uncertainty regarding the further policy of the regulator and, accordingly, the profitability of tenge assets. At the same time, inflation risks remain elevated and the government continues to increase budget expenditures, which keeps the economy overheated. The dollar is a safe harbour in the face of growing uncertainty. Given the global strengthening of the dollar's position, economic agents decided to gradually withdraw from risky assets, which is why the observed weakening of the tenge is connected.

The reduction of a significant share of supply with an increase in demand for foreign currency in the context of an increase in imports also served as one of the factors of the weakening of the tenge. As a result, the exchange rate of tenge to the US dollar dropped to the level of 482 tenge per dollar last week, which is the minimum for the national currency exchange rate since the beginning of the year.

Considering the end of the 3rd quarter and the beginning of the next Jusan Analytics team forecast round, we have updated our outlooks for the tenge exchange rate. **We expect** greater volatility and the tenge exchange rate in the range of 472-489 tenge per dollar by the end of the year (weakening by 1.9% - 5.7% since the beginning of the year and +0.6% and -3.6% compared to the end of September).

Summary of fundamental factors

factor name	quotes as of 10/06/2023	% Δ		impact on tenge*	factor name	value as of 10/06/2023	revision date	revision direction	
		week	month						
Brent price	84.6	-8.3%	-6.6%	▲	Real rate of the CB**	NBK	4.50%	08/25/2022	▲
The Dollar Index	106.0	-0.2%	1.1%	▼		Fed	2.20%	09/20/2023	▲
USDRUB	100.4	2.5%	2.3%	▼		ECB	-1.10%	09/14/2023	▲
CDS spread (USD/KZT)	680.8	-20.8 p.p.	-49.6 p.p.	▼		RF CB	6.00%	09/15/2023	▲

*An assessment of the impact of the change on the tenge dynamics: ▲ weakening, ▼ strengthening

** difference between the nominal interest rate and the inflation rate in 12 months (monetary regulator forecasts)

The exchange rate of tenge to foreign currencies

currency pair	exchange rate as of 10/06/2023	% Δ			min for 12 months	max for 12 months
		week	month	since the beginning of the year		
USD KZT	478.4	0.8%	3.7%	3.4%	431.08	482.77
EUR KZT	504.8	0.3%	2.0%	2.4%	452.1	509.71
RUB KZT	4.8	-2.3%	1.1%	-25.8%	4.42	7.8
CNY KZT	65.5	0.8%	4.0%	-1.8%	61.26	68.83



Jusan Analytics Indexes and calculations

Index name	value as of 10/06/2023	% Δ			dynamics (over the last 12 months)
		week	month	since the beginning of the year	
<u>the TENGE Index</u>	88.7	1.9%	-2.1%	6.0%	
Tenge volatility*	0.2%	0.5%	1.0%	2.5%	
<u>Export Price Index</u>	152.9	-5.95%	-3.1%	-2.7%	

* change columns are used to indicate the average value for the volatility row for the corresponding period (the last 12 months). The column from the beginning of the year shows the average annual volatility over the past 12 months.

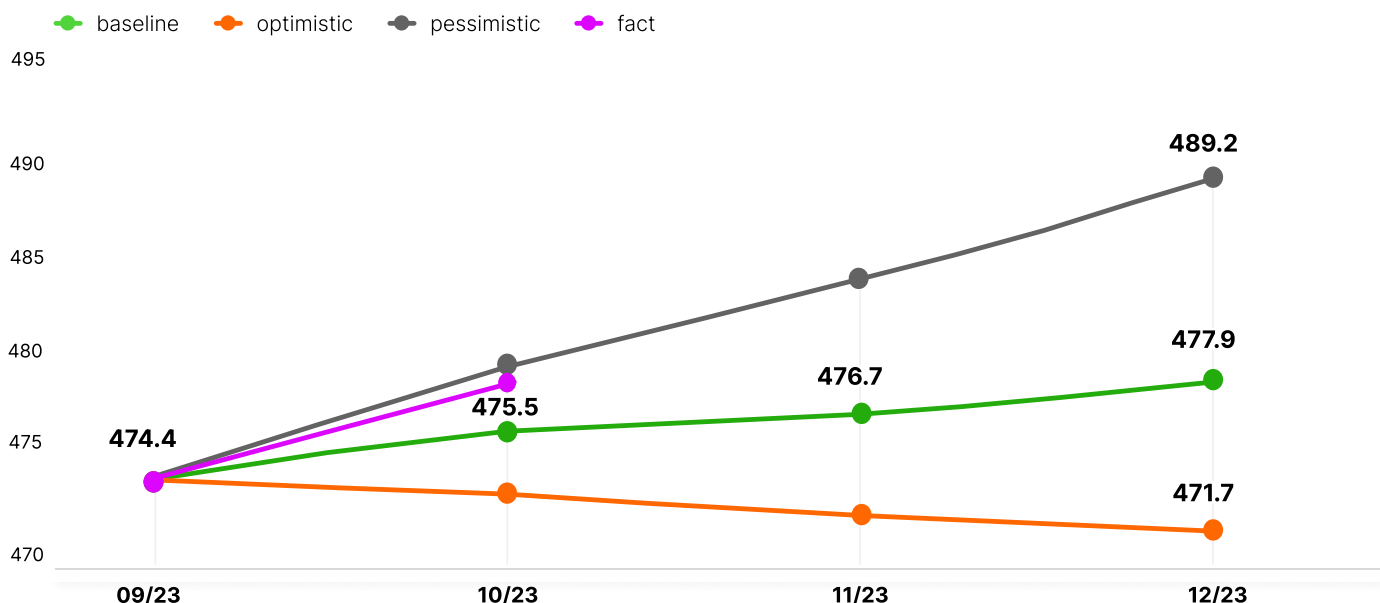
Jusan Analytics outlook

forecast date	currency pair	outlook period			fact-outlook correlation*	comment	
		week	month	end of the year			
09/29/2023	USDKZT	474.5	475.5	477.9	✓		
10/06/2023		478.4			✓		

* ✓ matches, × does not match

The outlook of the tenge to dollar exchange rate according to Jusan Analytics calculations

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