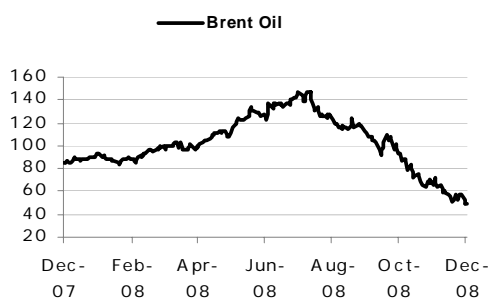
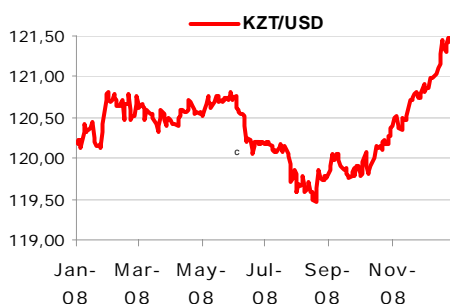
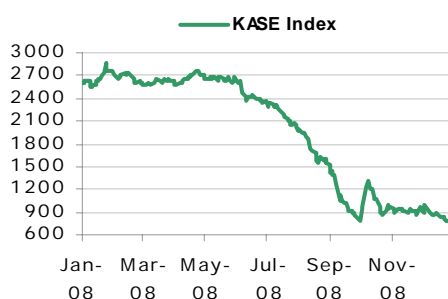


WEEKLY UPDATE

January 26, 2009



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Macroeconomics

Tenge gets hot on the eve of devaluation

On January 23, a day after a change at the helm of the NBK, the central bank sold an estimated \$800mn in FX reserves (one day record) to keep the Tenge from falling. At the end of the day, the NBK indicated that it will no longer provide Tenge liquidity to the banks. Kazprime (the interbank rate) rose from 12.3% on Thursday to 13.5% today.

In September 2008 a sharp terms-of-trade deterioration and continued capital outflows made the overvalued exchange rate unsustainable. Since then the NBK spent an estimated \$6.5bn in fx reserves, of which approximately \$1.5 was spent in the first three week of January, to maintain the exchange rate. The pressure on Tenge kept rising as Russian Ruble was losing against the Dollar. The volume of foreign exchange transactions on last Friday rose to \$1.2bn – a record amount.

The markets became jitterier after recent official announcements of gradual devaluation. On January 13, the then chairman of the NBK mentioned “a plus or minus 5% exchange rate band”. On January 19, the Minister of Economy and, as such, a member of the NBK’s Governing Board, announced what amounted to a target of 10% devaluation by the end of the year.

By eliminating much of the uncertainty regarding the magnitude and the timing of the devaluation, the recent statements made the defense of the exchange rate more costly and the task of managing market’s expectations more difficult. The NDF rates rose on January 19th to the levels consistent with a more imminent and steeper devaluation.

The governing structure of the NBK prevents it from conducting independent monetary policy. The Governing Board of the NBK includes four representatives of the NBK and is headed by the Chairman of the Bank, but also includes a representative of the President, the Minister of Finance, the Minister of Economy, and the Head of the Financial Supervision Agency.

On January 21, the President appointed Grigoriy Marchenko to head the National Bank. We believe the appointment indicates a shift toward more accommodating exchange rate policy and a recognized need for enhanced policy credibility in the aftermath of the devaluation. As a deputy governor of the NBK, Marchenko oversaw banking sector reform during 1994-96, and as a Chairman of the NBK spearheaded the transition to inflation targeting during 1999-2004.

To conduct the devaluation, the NBK needs some time to work out the details. A combination of a carrot (massive interventions on January 23) and a stick (same day promise of discontinued liquidity support) policy may have won the NBK a short respite.

This combination may achieve another objective as well. By cutting the banks off its liquidity facilities, the NBK lets them suffer the consequences of tight Tenge just long enough to assert its power of a monopolist provider of Tenge liquidity, without really hurting. This will enhance the post-devaluation credibility of the exchange rate policy which will need to be supported by tight money.

When to expect the devaluation? No longer than two weeks, but probably much sooner. During the next week Tenge will become very hot, with short-term interest rates rising above 30%. Unless the NBK announces its policy within a week, it will begin losing credibility and fx reserves, the interest rates will climb sky high, while the banks will start bleeding.

How the devaluation will be implemented? We can foresee two scenarios:

- a step devaluation by 15-20%;
- a gradual devaluation by 25% within the next six months; and

We believe, the odds are stacked in favor of the step devaluation.

In a less likely (10% probability) gradual devaluation scenario we expect the interest rates to be in high teens, due to arbitrage pressure, continued shrinking of the demand for money partially compensated by dollarization, rapid contraction of credit and of the economy with

attendant deterioration of asset quality. The adjustment in the real sectors is going to be slower.

A more likely (90% probability) step devaluation, in our opinion, will be more beneficial for the economy and for the banks. After the devaluation the pressure on the exchange rate will stabilize, if the Tenge remains tight with the interest rates, including policy rates, to match. Despite devaluation, we expect in this scenario inflation to be subdued, because of tight credit, but still rising to low teens in 2009 because of the exchange rate pass-through. We also expect a slow "crawling peg" after the devaluation, if it is less than 15%, or heavily managed band, if the devaluation is large enough, to help anchor the expectations. However, a free float is ruled out, at least during 2009-2010.

Madina Kurmangalieva

CIS currency watch

Hot Tenge

The NDF curves suggest that the market continues to a gradual devaluation, with fastest rate in the first three months.

Figure 1. Spot and forward exchange rates.

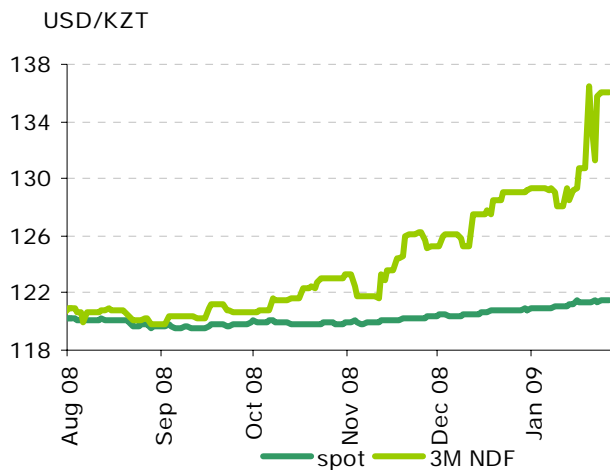
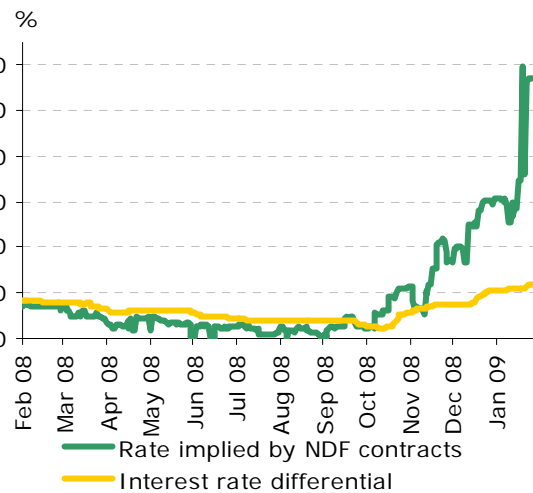
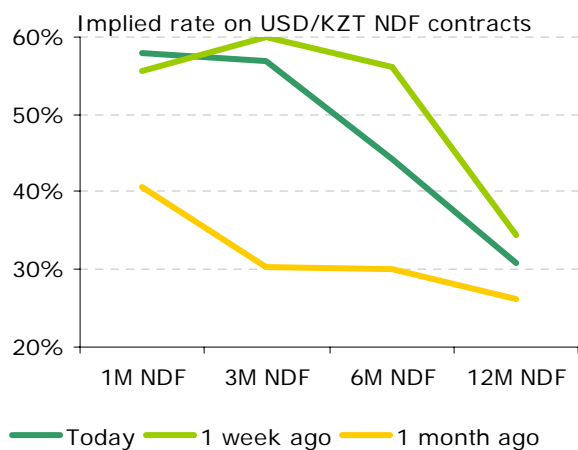


Figure 2. Covered interest rate parity. 50% arbitrage annual yield on tenge creates increased pressure on the exchange rate



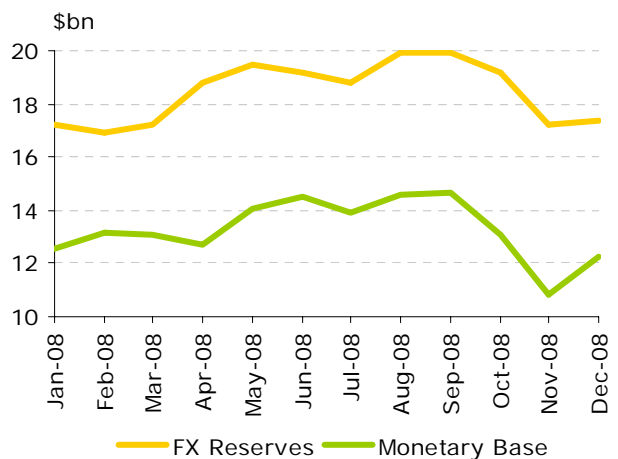
The interest rate differential is defined as the difference between Kazprime and 3-month USD Libor.

Figure 3. NDF curve. The markets expect devaluation in 1-3 months.



Source: Bloomberg, NBK, Halyk Finance computations

Figure 4. NBK's non-gold FX reserves and the monetary base.



Hrivna demonstrates the difficulties of defense after a retreat

Figure 5. Spot and forward exchange rates.

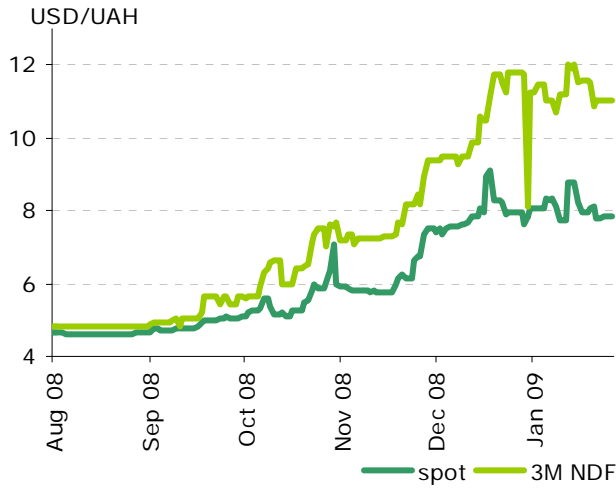


Figure 6. Covered interest rate parity.

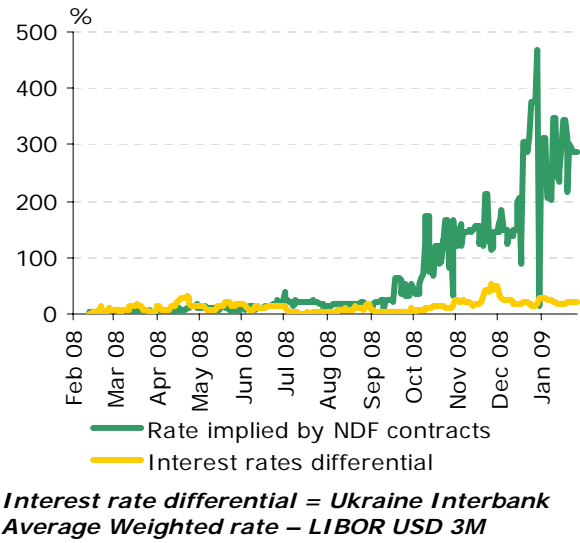
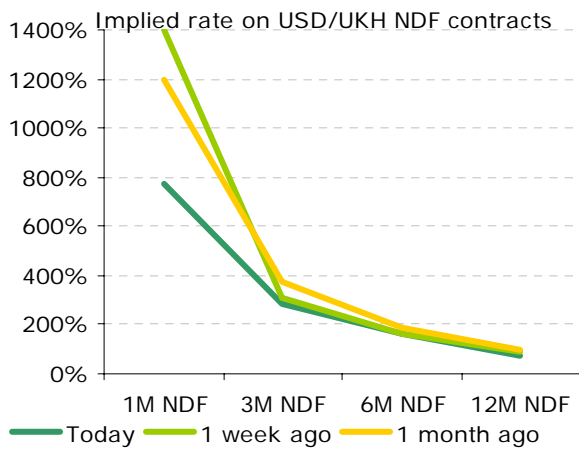


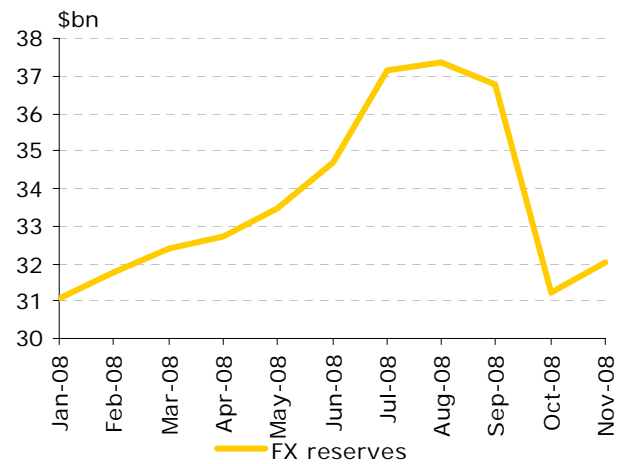
Figure 7. Annual rates on Hrivna implied by NDF contracts.

The expectations are calming, but the perceived risks remain high.



Source: Bloomberg, NBU, Halyk Finance computations

Figure 8. NBU's FX reserves.



Ruble devaluation is not over

Figure 9. Spot and forward USD/RUB rates.
Russia stops currency devaluation

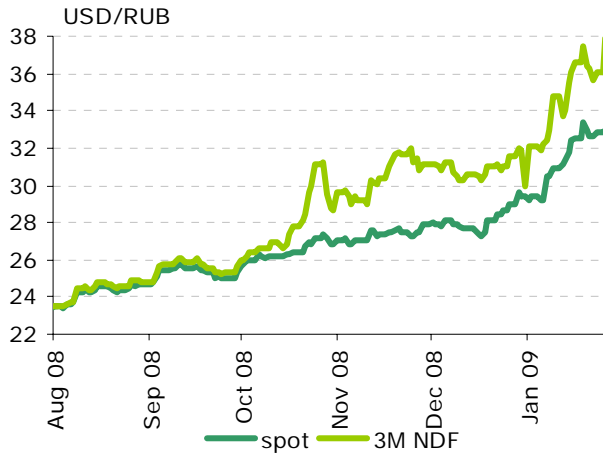
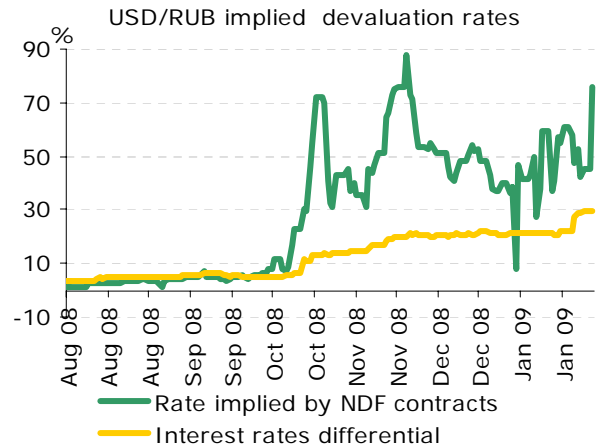


Figure 10. Figure 6. Covered interest rate parity.
The interest rate arbitrage yield didn't change after an announcement of devaluation discontinuance.



Interest differential is defined as 3M Moscow Interbank rate less 3M USD Libor

Figure 11. Spot and forward EUR/RUB rates.

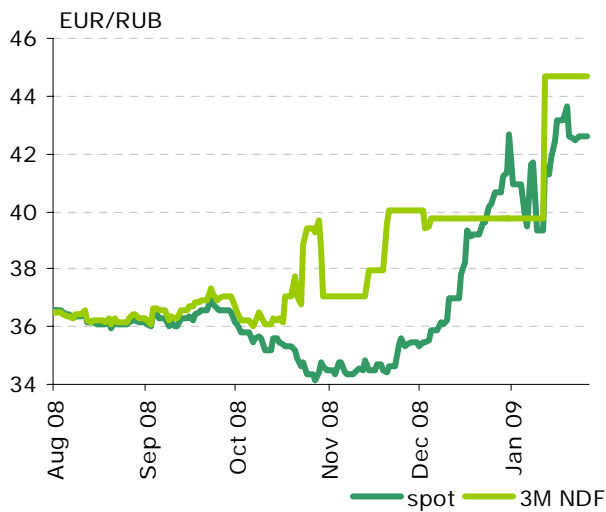
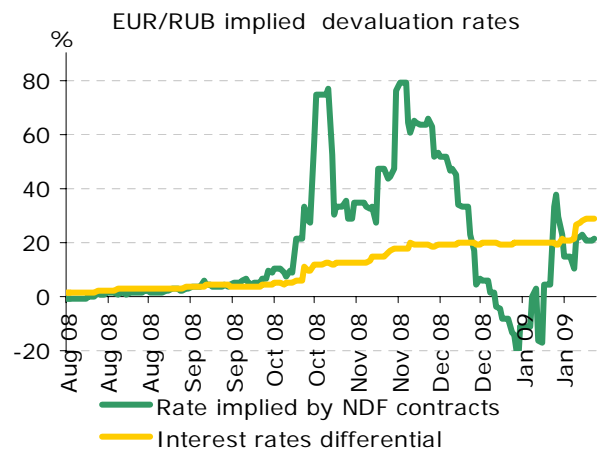
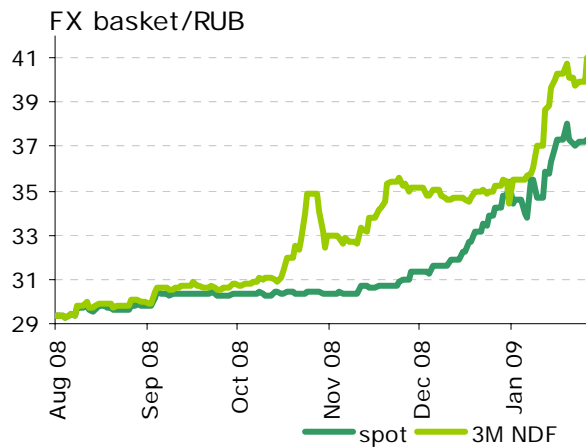


Figure 12. Covered interest rate parity.



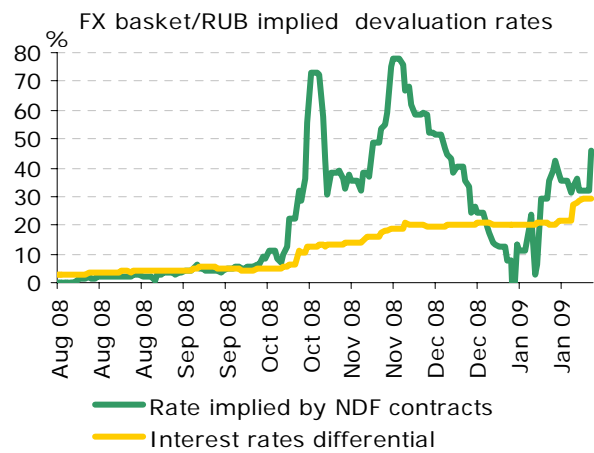
Interest differential is defined as 3M Moscow Interbank rate less 3M EUR Libor

Figure 13. Spot and forward basket/RUB rates.



FX basket consists of 55% US Dollar and 45% Euro
Source: Bloomberg, CBR, Halyk Finance computations

Figure 14. Covered interest rate parity.



Interest differential is defined as 3M Russia Moscow Interbank Offer rate less USD-EUR weighted 3M Libor

Figure 15. USD/RUB NDF curve

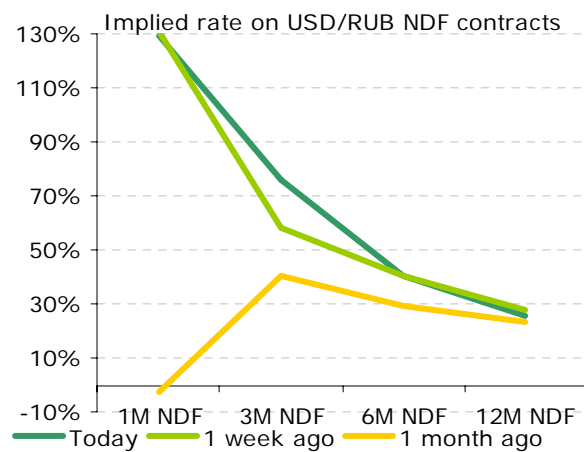


Figure 16. EUR/RUB NDF curve

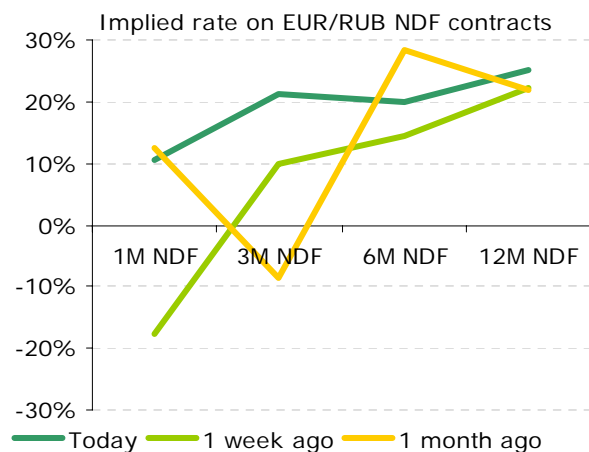
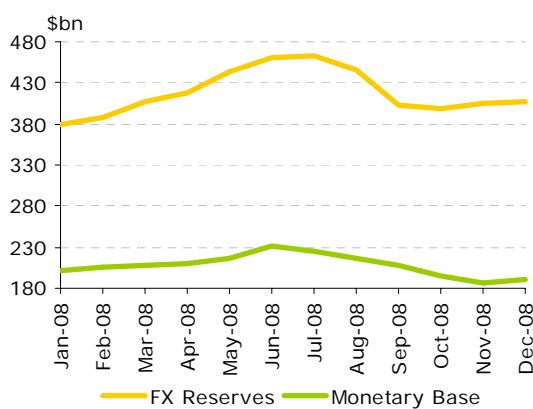


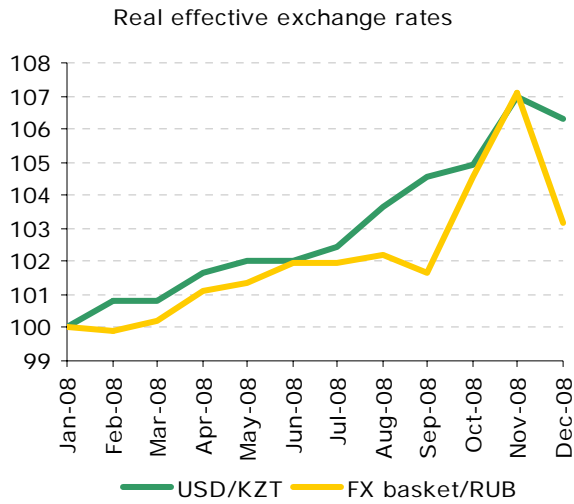
Figure 17. CBR reserves and the money base.



Source: Bloomberg, CBR, Halyk Finance computations

Figure 18. Real exchange rate.

Continued appreciation reverted only recently, due to lower inflation in Kazakhstan and sharper nominal devaluation in Russia.

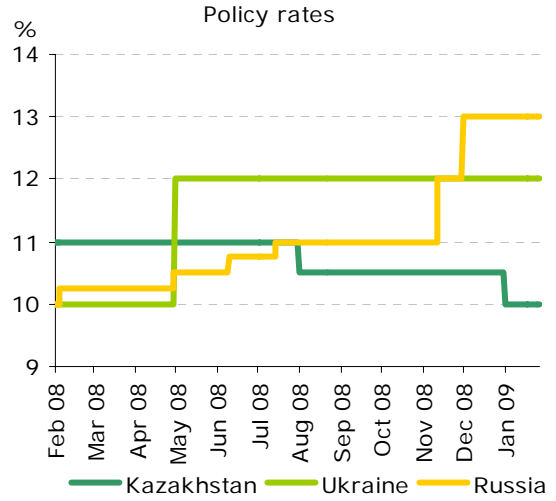


FX basket=55%*USD+45%*EUR
Source: NBK, CBR, NBU

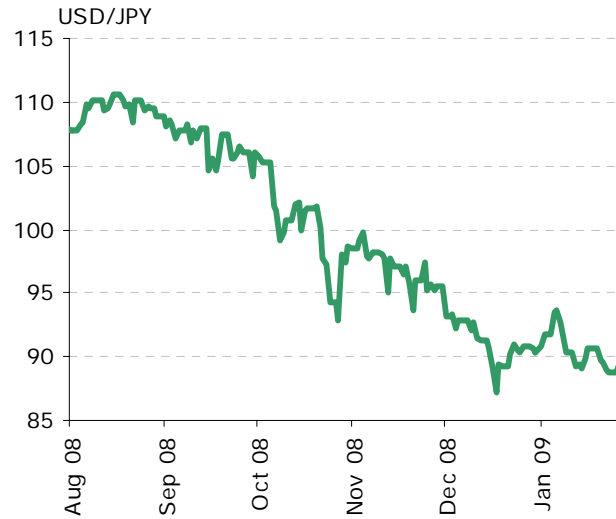
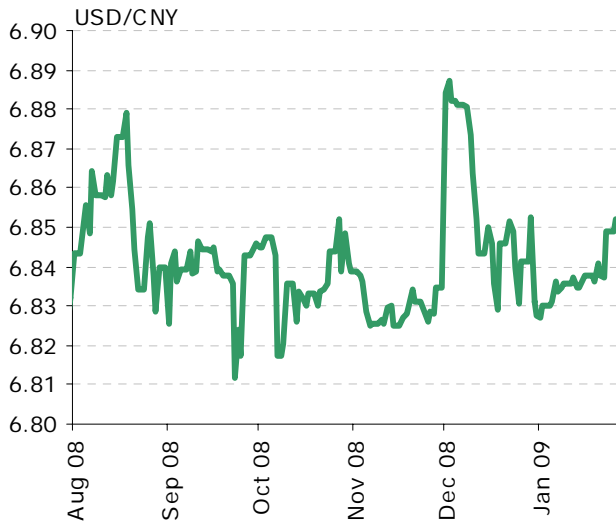
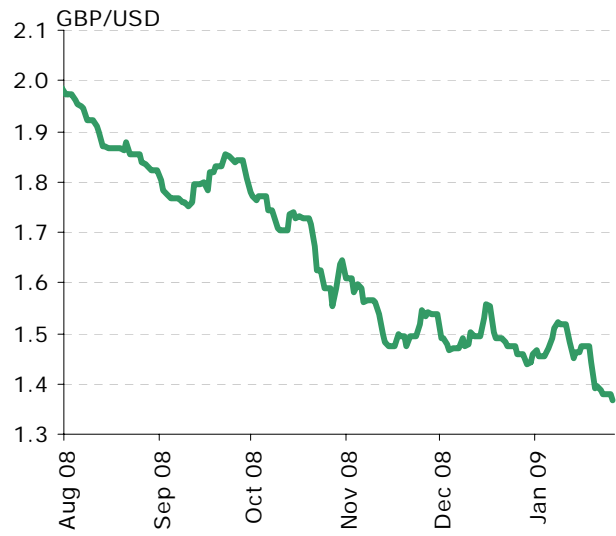
Madina Kurmangalieva

Figure 19. Monetary policy rates.

Rendered largely irrelevant by the speculative flight from currencies



World currencies



Financial Sector

BTA Bank 9M 2008: growing in size but not in profits

Last week BTA posted its 9M 2008 financial results on its corporate website without commenting. Based on this fact, we expect the announcement of a conference call in a few days.

The highlights of the report are

- 40.4% YoY net income fall and
- 19.8% YtD increase in total assets.

Looking at the details we see the following significant changes:

Balance Sheet – growing despite the crisis. As shown in Table 1, in Q308 BTA's balance sheet grew 9.4% (19.8% YtD), driven by loan book expansion (14.2% QoQ and 18.3% YtD). Compared to peers, of which only Halyk showed mild growth while Alliance and KKB shrank their assets, the result is significant. The loans comprise 77% of the banks' assets. On the liability side, this was backed by a sharp deposit growth (40.8% QoQ and 61.4% YtD). Total liabilities rose 21.5% YtD.

Income Statement – decline in profits. The net income in Q308 fell by 39.9% QoQ to KZT 35.2 bn (\$290 mn) and 40.4% YoY. In both periods this was mainly due to increased provision charges, which for 9M08 rose 3 times YoY. Notable is the fact that half of the total provisions were formed in Q3. The losses on net non-interest income rose from KZT 24.3bn (\$200mn) for 9M07 to KZT 40.4bn (\$330mn) for 9M09. Fees and commissions grew 25.1% QoQ and 23.8% YoY. Table 2 below contains more details on income statement results.

Asset quality – still deteriorating. According to AFN methodology (i.e. based on doubtful 5, bad loans and actual provisions for homogenous loans), as of December 1, 2008 total NPLs amounted to 5.5% of loan portfolio. This number has increased steadily since the start of 2008 when it was 1.3%, but this is a general trend for the whole sector where NPLs rose from 3.2% to 7.6% during the period. The bank's provision level is 8.0% of loans, covering 145% of NPLs. NPL based on IFRS definition (90day+ overdue) stood at 2.8% (5.2% for sector), which is anomalously low, in our view, both in comparison with the sector and its own statutory NPL.

In general, we believe the negative trend in asset quality will continue at least till end 2009 for the whole sector, including BTA, as aggregate credit to the economy tightens.

Table 1. Balance Sheet, KZT mn

	End 2007	Q1 2008	Q2 2008	Q3 2008	QoQ	YtD change
Loans to customers, net	2 379 810	2 401 313	2 464 933	2 814 163	14,2%	18,3%
Total assets	3 064 617	3 164 391	3 356 244	3 671 053	9,4%	19,8%
Customers' accounts	652 508	670 735	747 705	1 052 999	40,8%	61,4%
Total liabilities	2 612 586	2 701 343	2 881 882	3 174 541	10,2%	21,5%

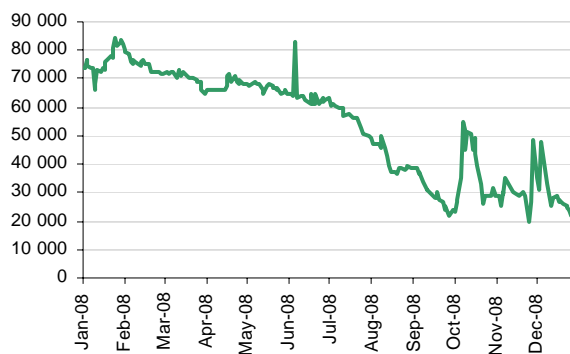
Source: Company data, Halyk Finance estimates

Table 2. Income Statement, KZT mn

	Q1 2008	Q2 2008	Q3 2008	9M 2008	9M 2007	QoQ	YoY change
Net interest income before provisions	43 567	41 872	52 293	137 732	97 082	24,9%	41,9%
Provisions	(25 289)	(15 671)	(39 059)	(80 019)	(26 229)	149,2%	205,1%
Net interest income after provisions	18 277	26 202	13 234	57 713	70 853	-49,5%	-18,5%
Fees and commissions	8 319	7 288	9 119	24 726	19 979	25,1%	23,8%
Net non-interest income	(9 457)	(15 841)	(15 091)	(40 389)	(24 373)	-4,7%	65,7%
Net income	15 557	12 273	7 382	35 212	59 084	-39,9%	-40,4%

Source: Company data, Halyk Finance estimates

Figure 1. 52-week BTA share performance, KZT



Source: Bloomberg

Alibek Zhaxylykov
Askar Turganbayev

Metals and Mining

Metals: Weakening physical demand

Last week base metal prices sagged as inventory stocks kept on rising, suggesting a weakening physical demand. Nickel rose 12% with inventory levels nearly flat, MoM.

The leading metal producers expect that low metal prices are here to stay. Xstrata, BHP Billiton, and Rio Tinto suspend development plans and continue making output cuts.

Company stocks slid too. Despite promises to keep production rates and jobs untouched, Kazakhstani metal producers may be forced to make cuts, following the global trend.

We expect output cuts to be announced at Kazakhmys. On Wednesday, Kazakhmys CEOs pledged 49.25m of shares (9% of outstanding) to service current obligations.

Table 1. Metal prices on LME

Metal	Last Spot Price	One week average price	One week chg*	One month chg	12 month chg	52-high	52-low
Base (\$/t)							
Aluminum	1,309	1,332	-8.5%	-14.2%	-44.9%	3,271	1,297
Copper	3,217	3,233	-3.2%	13.5%	-53.5%	8,900	2,810
Lead	1,112	1,120	-4.3%	27.0%	-55.4%	3,423	845
Nickel	12,056	11,326	11.8%	25.0%	-54.8%	33,185	8,934
Zinc	1,150	1,172	-6.3%	1.2%	-47.5%	2,811	1,047
Ferrous (\$/t)							
Steel	301	312	-7.5%	-8.9%	-68.7%	960	253
Precious (\$/t oz)							
Gold	899.8	860.8	6.7%	7.1%	1.1%	1003.0	712.3
Silver	12.0	11.4	6.3%	16.9%	-25.5%	20.8	9.0

This table refers to the period of January 9-January 16, 2009

** change on January 16 with respect to January 9*

Source: Bloomberg, Halyk Finance estimates

Table 2. Share prices of metals producers

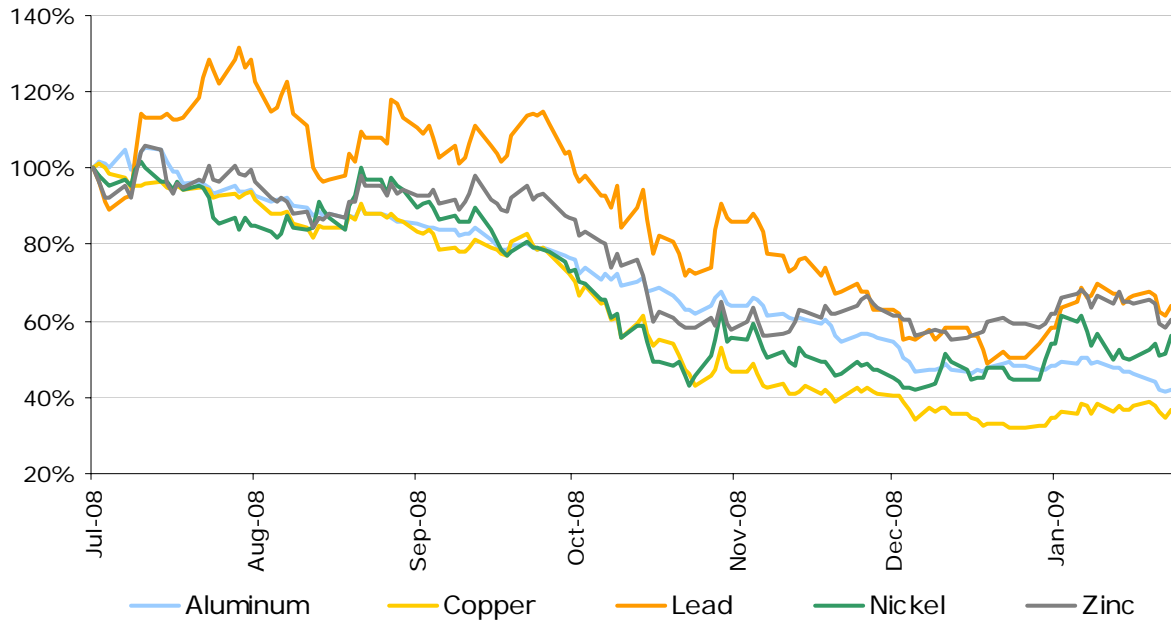
Company	Crncy	Last price	One week average	One week chg*	One month chg	12 month chg	52-high	52-low
ArcelorMittal	USD	22.4	22.7	-6.6%	-3.8%	-62.5%	104.3	15.5
ENRC	GBP	300.0	307.4	-8.1%	-1.6%	-50.0%	1535.0	191.4
Kazakhgold	USD	3.7	3.9	-11.7%	64.4%	-84.9%	26.2	2.2
Kazakhmys	GBP	207.3	205.5	-6.2%	-8.4%	-80.2%	1943.0	173.8
ShalkiyaZinc	USD	0.2	0.2	0.0%	0.0%	-94.7%	5.0	0.1
Uranium One	CAD	2.2	2.2	3.8%	42.1%	-68.8%	7.5	0.6
UKTMK	KASE	31900.0	31900.0	0.0%	-9.1%	18.1%	35090.0	19000.0

This table refers to the period of January 9- January 16, 2008

** change on January 16 with respect to January 9*

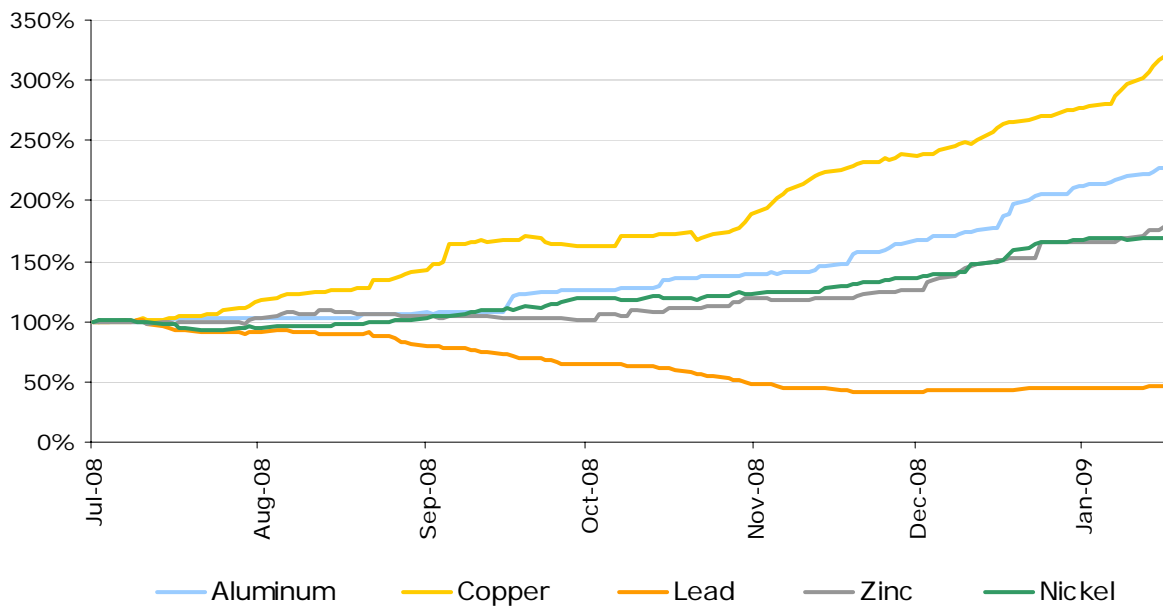
Source: Bloomberg, Halyk Finance estimates

Figure 1. Metal price on LME (rebased to July 1, 2008)



Source: Bloomberg, Halyk Finance estimates

Figure 2. Inventory stocks on LME (rebased to July 1, 2008)



Source: Bloomberg, Halyk Finance estimates

Gaukhar Sarsembayeva

KASE: week-on-week

Common shares of BTA dominated the equity trade at KASE during the past week, accounting for 80% of all transactions. BTA published financial results for 9 months of 2008 at the beginning of the week. These were met with mixed feelings. (See the story in the financial section). Over the week, BTA lost 11.5% (3% on weighted average basis).

Alliance Bank is slowly sliding towards its historical low. Common shares of Alliance Bank lost another 5.3% following 3% fall two weeks ago. Preferred shares of Alliance Bank closed at 52-week low. Another bank closing at 52-week low was Nurbank.

Negative trend in Kazakhtelecom's share prices persists. Both preferred and common shares of Kazakhtelecom closed at their respective 52-week lows.

Kazmunaigas gained 5.4%.

Company	Last Price (KZT)	Weekly Weighted Average Price (KZT)	One Week Change*	Volume (mn KZT)	Mkt Cap (\$mn)	52-week low	52-week high
Alliance Bank	3500	3500	-5,3%	0,1	281,1	3 400	33 000
Alliance Bank p1	4300	4452	-2,7%	18,5	14,3	4 300	12 200
Astana Finance	22728	22743	0,0%	4,8	893,9	15 000	25 000
Bank CenterCredit	480	406	-5,3%	32,2	521,3	380	2 000
BTA Bank	23000	23979	-3,1%	4012,3	1604,4	19 000	85 000
Delta Bank	3800	4231	-6,6%	16,0	132,6	1 321	5 270
ENRC	470	498	-2,5%	1,0	5043,7	395	3 750
Halyk Bank	79	84	-2,0%	18,4	645,2	72	610
Halyk Bank p	125	125		45,9	109,3	121	296
Halyk Bank**	83	83		1,0		83	561
Kazakhmys	385	399	-4,5%	19,1	1459,6	370	4 600
KazakhTelecom	10500	12315	-4,6%	30,9	955,8	10 500	41 000
KazakhTelecom p	4200	5617	3,1%	15,2	14,1	4 200	23 500
Kazcat	7	7	1,5%	3,8	83,9	4	7
Kazkommertsbank	340	376	-0,8%	155,0	1628,7	190	1 255
Kazkommertsbank p	95	95	0,1%	38,9	98,8	86	440
KazMunaiGaz	9650	9939	5,4%	282,6	5646,9	6 201	24 500
KazTransCom	10955	11362	-2,9%	7,6	217,9	1 417	21 700
KazTransCom p	1000	1421		4,5	0,9	1 000	2 310
Mangistau Power Distribution	2400	2400	0,0%	6,2	39,7	2 400	2 970
MangistauMunaiGaz p	3150	3164	-13,0%	7,2	28,6	3 150	20 000
Nurbank	19000	21705		207,6	501,1	19 000	22 727
Ordabassy	2326	2326		18,0	52,0	250	4 000
Real Invest**	6	6	19,8%	7,6		1	6
Temirbank	5000	5000	0,0%	98,5	794,5	4 500	8 500
Temirbank p	909	909		18,5	37,9	725	2 902
Tsesna Bank	751	751	0,0%	0,9	84,5	750	2 343

* Refers to change in Weighted Average Price

** Securities traded at RFCA trading floor

Gabit Zhanyrbayev

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