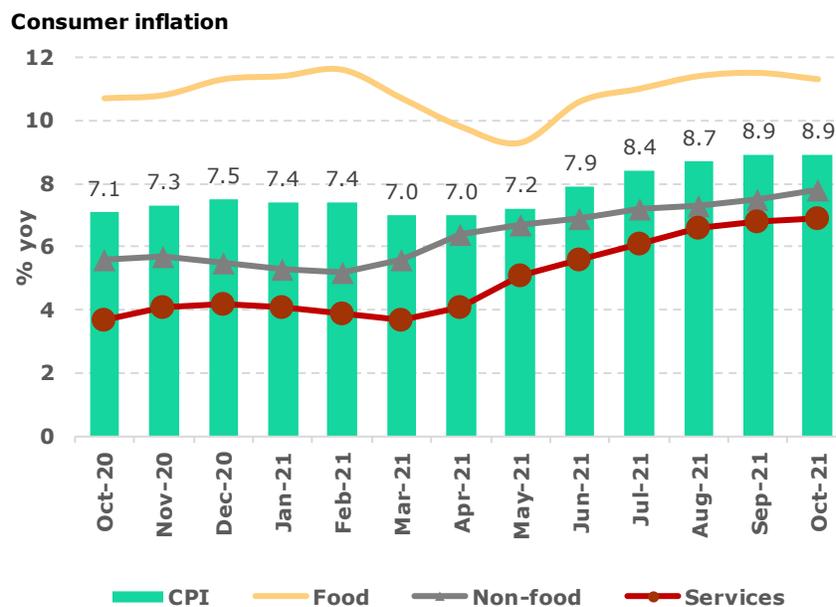


November 2 2021

An earlier seasonal rise in prices for fruit and vegetable products, combined with interruptions in the supply of energy resources in the domestic market and an increase in the cost of certain types of paid services, created a significant inflationary pressure in the consumer market of the republic. As a result, the growth rate of consumer prices in October accelerated significantly to 0.7% mom (0.4% mom in September), while in annual terms inflation remained at the same level of 8.9%. The Government's administrative measures to combat inflation, along with the gradual tightening of monetary conditions in the country, have not yet had the desired effect on inflation, the rate of which has reached its maximum level over the past five years. We expect a moderate rise in prices in the next two months, as well as due to the high base of December last year, inflation at the end of this year, according to our forecast, will amount to 8.5-8.7% yoy.

According to the Bureau of National Statistics, inflation in October, after slowing down in August and September, accelerated again from 0.4% mom to 0.7% mom. In annual terms, the consumer price index in October did not change and amounted to 8.9%. Growth in food prices slowed to 11.3% yoy (11.5% yoy in September 2021), while the cost of non-food products increased by 7.8% yoy (7.5% yoy in September 2021). Paid services rose 6.9% yoy (6.8% yoy in September 2021).



Source: BNS, Halyk Finance

Food prices in October increased by 0.7% mom, providing a 0.27pp contribution to the headline consumer inflation. In particular, went up prices for such foodstuffs as eggs (+7.2% mom), fruits and vegetables (+1.5% mom), sugar (+1.4% mom) and bread (+0.7% mom). At the same time, prices decreased for carrots (-0.5% mom), onions (-4.8% mom) and apples (-3.2% mom).

Prices for non-food products in October increased by 1.0% mom, providing a 0.3pp contribution to the headline consumer inflation. Diesel fuel prices have significantly increased (+16.6% mom), liquefied gas (+6.4% mom), solid fuel (+2.1% mom) and gasoline (+0.9% mom).

In the paid services sector, prices increased by 0.5% mom, and their contribution to the overall rise in prices in October amounted to 0.16pp. The cost of rental housing increased (+1.1% mom), communication services (+1.0% mom) and catering services (+1.0% mom).

Inflation, %

Type of good or service	October 2021			October 2020		
	mom	ytd	yoy	mom	ytd	yoy
All goods and services	0.7	7.0	8.9	0.6	5.5	7.1
Food products	0.7	8.2	11.3	0.8	8.3	10.7
Bakery and cereals	0.4	7.0	8.5	0.6	8.9	12.0
Meat	0.5	9.8	10.3	0.4	8.3	9.5
Fruits and vegetables	1.5	5.8	14.2	-0.7	5.7	13.0
Milk products	0.3	6.1	7.4	0.9	7.3	9.1
Oils, fats	0.3	16.6	28.1	3.1	10.7	12.0
Non-food products	1.0	6.8	7.8	0.6	4.5	5.6
Clothes and footwear	0.4	5.0	6.2	0.6	3.6	5.0
Cleaning materials	0.2	5.1	6.9	0.7	8.3	9.7
Gasoline	0.9	15.7	15.6	0.0	2.6	2.5
Diesel	16.6	28.8	24.4	-0.1	-3.3	-1.5
Services	0.5	5.6	6.9	0.4	3.0	3.7
House maintenance	0.0	2.9	2.9	0.1	0.5	0.5
Food serving	1.0	5.2	8.8	0.5	3.4	4.7
Education	0.4	7.9	8.2	0.5	3.7	3.8
Health care	0.5	5.0	6.2	0.3	5.1	6.5
Personal services	0.5	5.7	8.1	0.4	4.5	5.6
Telecom services	1.0	3.0	3.0	0.1	2.4	2.5

The table contains the main components of CPI

Source: BNS, Halyk Finance

Our opinion

The pressure on prices in October was mainly provided by food (+0.7% mom) and non-food products (+1.0% mom), while the cost of paid services grew more moderately (+0.5% mom). The growth in the cost of food products was influenced by the seasonal rise in prices for fruit and vegetable products, the prices for which showed a sharp increase by 1.5% mom, while in October 2020 prices for this category, on the contrary, decreased (-0.7% mom). Significant pressure on food prices within the country is transmitted through foreign trade channels. Thus, according to the FAO (Food and Agriculture Organization of the United Nations), the global food price index in September this year increased by 32.8% yoy. This acceleration in prices mainly occurred against the background of the growth in prices for cereals (+27.3% yoy) and vegetable oil (+60% yoy). In addition, became more expensive sugar (+53.5% yoy) and dairy products (+15.2% yoy).

In turn, the acceleration of growth rate of prices for non-food products was provoked by a shortage of fuel in the domestic market, especially diesel fuel. It happened against the background of the Pavlodar oil refinery repair scheduled for October. In addition, the rise in prices for other types of energy resources is due to the growth of seasonal demand on the eve of the winter period, as well as under the influence of external conditions. For example, many countries in the region are experiencing difficulties in providing energy resources not only to the private sector, but also to industrial enterprises. This, in turn, enter into producer costs and is further exacerbated by the supply disruptions, creating cost push inflation. The acceleration of the recovery growth of the Kazakh economy, accompanied by double-digit growth in nominal wages against the backdrop of stimulating fiscal policy, creates additional pressure on prices from the demand side (demand pull inflation), even despite the progressive tightening of monetary conditions by the NBK in the country.

In our opinion, the influence of administrative measures and tight monetary conditions will begin to more pronouncedly affect the slowdown of inflationary processes in the last two months of this year. In our opinion, the main inflationary shocks have already been realized by now and further acceleration of monthly inflation will be moderate. Our inflation forecast for the end of this year is 8.5-8.7% yoy.

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Contacts:

Research department mail to: research@halykfinance.kz

Sales department mail to: sales@halykfinance.kz

Address:

Halyk Finance
Abay av., 109 «B», 5th fl
A05A1B4, Almaty, Kazakhstan
Contact. +7 727 357 59 77
www.halykfinance.kz

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