

July 7 2020

Due to the improvement of the external economic situation and stabilization of the situation in the money market, in recent months there has been a steady downward trend in rates in tenge. We believe that as a result of the slowdown in inflation and inflationary expectations in the second half of this year, decline in rates will continue. We expect a decrease in the base rate of the National Bank to 9% by the end of this year and recommend buying tenge bonds of the Ministry of Finance with a maturity of 3-5 years.

### Lower inflationary expectations allows the National Bank to soften monetary policy

As a result of the return of oil prices to above \$ 40 per barrel, the tenge has significantly strengthened and is consolidating at the level of 405-410 tenge per 1 dollar. Strengthening the tenge significantly reduces pressure on inflation and stabilizes inflation expectations. After rising in April to 0.9% mom inflation sharply slowed down to 0.5% mom in May, and in June it weakened even more – to 0.4% mom. In early June, the NBK left the base rate unchanged at 9.5%, but announced a decrease in inflation expectations from 9-11% to 8%-8.5%.

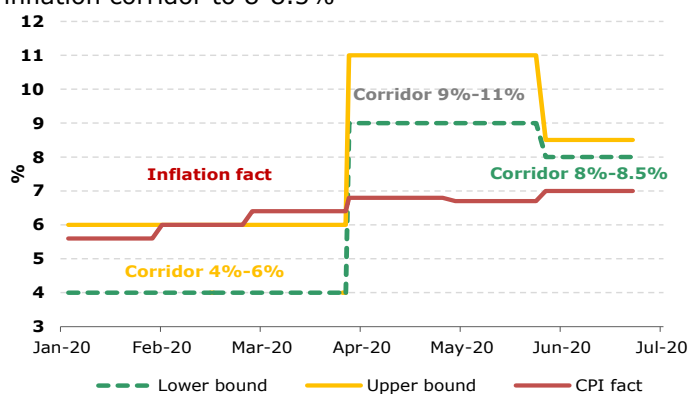
We believe that in the second half of this year, the tenge will gradually weaken against the dollar, which may increase pressure on inflation. However, the effect on inflation will be restrained due to the ongoing economic downturn. The appreciable stabilizing effect on inflation will be provided by a tenge appreciation against the ruble by about 5% since the beginning of this year, which partially offset the weakening of the tenge against the dollar. Given that imports from the Russian Federation account for more than 30% of Kazakhstan's total imports, this has a significant stabilizing effect on prices.

The recession that began in the second quarter in the domestic economy, according to our expectations, will continue in the second half of the year. A significant decrease in export revenues as a result of falling hydrocarbon prices and a forced reduction in oil production together with a contraction in business and investment activity in the country will lead to lower consumer incomes and dampen aggregate demand, which will significantly limit inflationary pressures.

In the structure of inflation, we expect a significant increase in prices only for food products, while prices for non-food products and the cost of services will grow weakly due to suppressed demand and a savings model of consumer behavior. Distribution of the remote work format will reduce the demand for rent, transportation services and many other types of services. In our opinion, in the second half of the year, average monthly inflation will be within 0.5% with the prospect of a decrease in 2021. According to the results of the current year, we expect inflation at 7.3%, which is below the 8-8.5% forecasted by the National Bank.

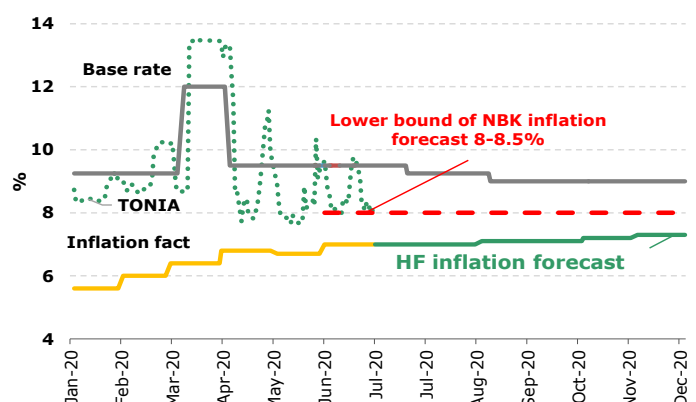
A more restrained change in inflation, the temporary nature of its acceleration, as well as the need to stimulate the economy through a monetary channel, in our opinion, will prompt the National Bank to gradually reduce the base rate. As a result, we expect the base rate to be cut to 9% by the end of this year.

Figure 1. In June NBK lowered and narrowed forecasted inflation corridor to 8-8.5%



Source: NBK, KASE, CS MNE, Halyk Finance

Figure 2. HF inflation forecast: 7.3% in 2020



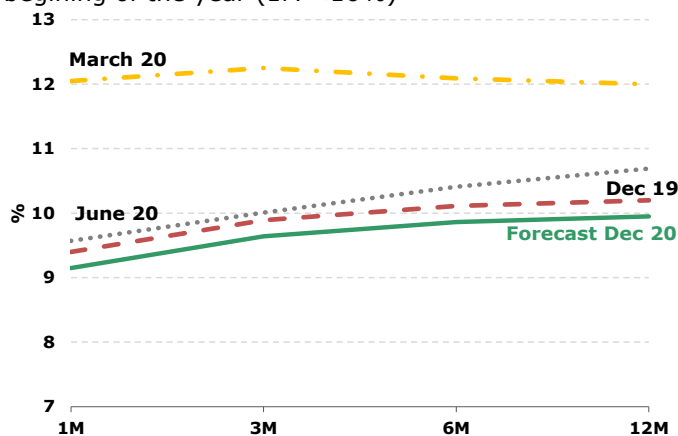
Source: NBK, KASE, CS MNE, Halyk Finance

## Rates on government securities – a comparison of the notes of the National Bank and bonds of the Ministry of Finance

An important benchmark in the Kazakhstani money market is the notes of the National Bank, which are used by the NBK to implement its decisions in the field of monetary policy. The most representative are 1-month notes with a maturity of 28 days, auctions for which are held once a week. The rates on these notes have been dropping quite quickly lately after the rise in March, which followed the increase in the base rate. For example, in March, the rates for monthly notes were at the level of 12.1%, but already in early April they fell to 10.6%, and at the end of June they approached 9.6%. Rates on longer notes of the National Bank also decreased, although less significantly. Thus, rates for 6-month notes decreased from 12.1% to 10.4%, and for 12-month notes – from 12% to 10.7%. As a result, the spread between 1M notes and 12M notes widened from 0.2pp. earlier this year to the current 1.1pp.

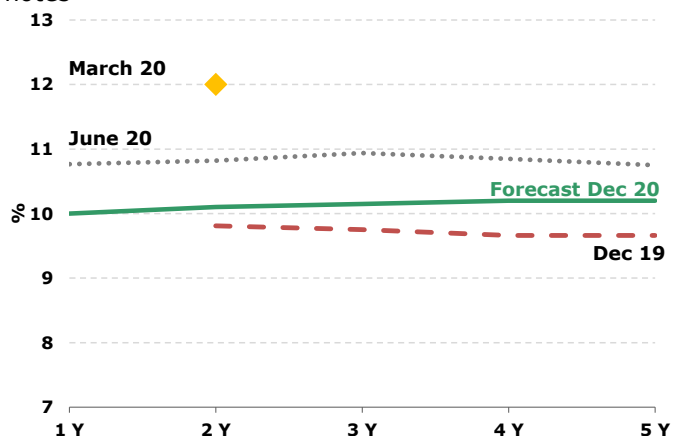
Yields on bonds of the Ministry of Finance also reacted to changes in rates in the money market, although with some lag to shorter NBK notes. In particular, the yield on 2-year bonds of the Ministry of Finance when placed in March was 12%, in April was at 11%, but already in June, the yield on placement for securities with identical maturity decreased to 10.8%.

Figure 3. Yield curve of NBK notes moved toward the beginning of the year (1M <10%)



Source: NBK, KASE (Yield curve at placement)

Figure 4. Yield curve of Minfin bonds react with lag to NBK notes



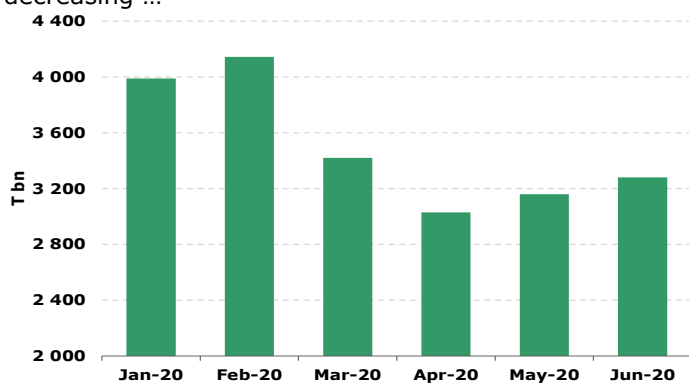
Source: KASE (Yield curve at placement) \* in March 2Y bonds, no deals on the secondary market with 1Y-5Y maturities

## Volumes of notes of the National Bank in circulation are decreasing, and bonds of the Ministry of Finance – are increasing

For 6 months of this year, the total volume of notes of the National Bank in circulation decreased from T4 trillion to T3.3 trillion. This is due to the fact that the volume of notes issued by the National Bank declined by more than 40% compared to the same period in 2019. However, there was an increase in the volume of bonds issued by the Ministry of Finance.

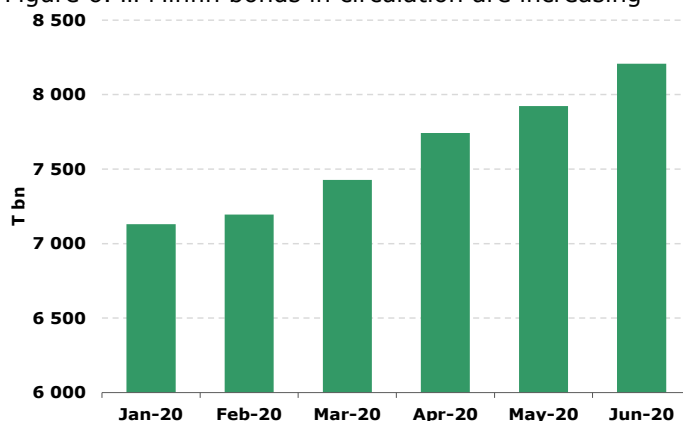
The volume of obligations of the Ministry of Finance in circulation increased from T7.1 trillion at the beginning of the year to T8.2 trillion at the beginning of July. Thus, there was a certain rebalancing of the issuance of government securities from the National Bank notes towards the bonds of the Ministry of Finance. The growth in the obligations of the Ministry of Finance this year seems logical and is due to an increase in the state budget deficit from T1.3 trillion in 2019 to T2.4 trillion this year. At the same time, a shift in demand from the National Bank notes in favor of the Ministry of Finance bonds offering a higher yield is obvious.

Figure 5. Short term NBK notes in circulation are decreasing ...



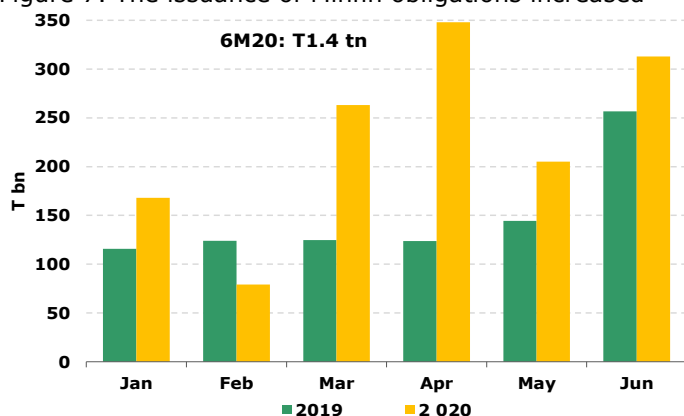
Source: NBK, KASE \*June – HF estimate

Figure 6. ... Minfin bonds in circulation are increasing



Source: NBK, KASE \*June – HF estimate

Figure 7. The issuance of Minfin obligations increased



Source: NBK, KASE \*June – HF estimate

As a result of the increased need for financing, for the first half of 2020 the placement of the Ministry of Finance bonds increased by 55% compared to the same period of 2019. In January-June, the Ministry of Finance raised approximately T1.4 trillion in the market through bonds. At the beginning of the year, the volumes of fundraising were quite small, but already in March they exceeded T250 billion, in April they approached T350 billion, and in May their volume decreased to T205 billion. According to our estimation, in June the Ministry of Finance raised T313 billion. The placement of the Ministry of Finance obligations in the first 6 months of this year could have been much higher, but the large attraction of transfers from the National Fund, the size of which in the 5M2020 reached T2.5 trillion, smoothed the financing needs.

In its June releases, the National Bank did not exclude consideration of easing monetary conditions, but de facto we already see a gradual decrease in short rates, which in June were only 0.7pp higher than the level recorded at the beginning of the year. The unfolding recession and falling purchasing power of the population have already reduced demand in the economy, while recovery will be slow, which creates the prerequisites for the emergence of sustainable disinflation factors. According to our expectations, a decrease in the base rate to 9% by the end of this year will lead to a decrease in interest rates on NBK notes in the second half of the year by 0.4pp-0.7pp from current values. Accordingly, a decrease in short-term rates will entail a drop in rates on the Ministry of Finance securities along the entire yield curve.

The structure of notes issued by the National Bank is largely represented by longer issues – 6-month and 12-month notes in the total volume approach 85%. Moreover, more than half the volume of all notes in circulation have a period of 12 months. But already in July this year, the National Bank stopped to issue 12-month notes, thus encouraging investors to purchase bonds of the Ministry of Finance, which plans to significantly increase the supply on the securities market with a circulation period of 1 to 3 years.

### We recommend buying bonds of the Ministry of Finance with a maturity of 3-5 years

Despite a slight decrease, we believe that rates on government securities remain attractive for investment, especially on bonds of the Ministry of Finance. The most interesting paper seems to us with a maturity of 3-5 years. Rates on bonds of the Ministry of Finance on this segment of the curve are at the highest level (10.8-10.9%), while liquidity in the secondary market for these bonds is quite high – slightly lower than for shorter instruments (1-2 years), but significantly higher than for long instruments (7-15 years).

© 2020 Halyk Finance, a subsidiary of Halyk Bank.

For contact details see the information on Halyk Finance website [www.halykfinance.kz](http://www.halykfinance.kz) or contact Halyk Finance office. All rights reserved. This document and/or information has been prepared by and, except as otherwise specified herein, is communicated by Halyk Finance. This document is for information purposes only. Opinions and views expressed in this document do not necessarily represent the opinions and views held by Halyk Finance, or other subsidiaries of Halyk Bank. The differences of opinion stem from different assumptions, sources information, criteria and methodology of valuation. Information and opinions expressed herein are subject to change without notice; and neither Halyk Finance, or Halyk Bank, or any of its subsidiaries or affiliates are under any obligation to keep them current. This document is not an offer or an invitation to engage in investment activity. It cannot be relied upon as a representation that any particular transaction necessarily could have been or can be effected at the stated price. This document does not constitute an advertisement or an offer of securities, or related financial instruments. Descriptions of any company or companies or their securities or the markets or developments mentioned herein are not intended to be complete. Views and opinions expressed in this document cannot substitute for the exercise of own judgment and do not attempt to meet the specific investment objectives, financial situation or particular needs of any specific investor. The information and opinions herein have been arrived at based on information obtained from sources believed to be reliable and in good faith. Such sources have not been independently verified; information is provided on the basis and no representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness, reliability, merchantability or fitness for a particular purpose of such information and opinions, except with respect to information concerning Halyk Finance and its affiliates. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors and trading in these instruments is considered risky. Past performance is not necessarily indicative of future results. Foreign-currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or the price of, or income derived from, the investment. Halyk Finance and its affiliates, directors, representatives, employees, or clients may have or have had interests in issuers described herein. Halyk Finance may have or have had long or short positions in any of the securities or other financial instruments mentioned herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale, of any such securities or other financial instruments at any time, as principal or agent. Halyk Finance and its affiliates may act or may have acted as market maker in the securities or other financial instruments described herein, or in securities underlying or related to such securities. Employees of Halyk Finance or its affiliates may serve or have served as officers or directors of the said companies. Halyk Finance and its affiliates may have or have had a relationship with or have provided investment banking, capital markets, advisory, investment management, and/or other financial services to the relevant companies. Halyk Finance relies on information barriers to avoid the appearance of conflict of interests within Halyk Finance or in its relations with clients, other issuers, and external investors.

The information herein is not intended for distribution to the public and may not be reproduced, redistributed or published, in whole or in part, for any purpose without the written permission of Halyk Finance. Neither Halyk Finance nor any of its affiliates accepts any liability whatsoever for the actions of third parties in this respect. This information may not be used to create any financial instruments or products or any indices. Neither Halyk Finance, nor its affiliates, nor their directors, representatives, or employees accept any liability for any direct or consequential loss or damage arising out of the use of any information herein.

© 2020, All rights reserved

#### Research department

Stanislav Chuev	Head
Asan Kurmanbekov	Macroeconomics
Dmitry Sheikin	Macroeconomics
Zhansaya Kantayeva	Fixed income
Madina Meterkulova	Equity
Vladislav Benberin	Equity

#### Sales department

Maria Pan	Head
Aizhan Moldakhmetov	Institutional
Asel Baizhanova	Institutional
Zhanna Nuralina	Retail
Shynar Zhakanova	Retail
Alia Abdumazhitova	Retail
Alia Mukhametzhanova	Retail

#### Address:

Halyk Finance  
Abay av., 109 «B», 5th fl  
A05A1B4, Almaty, Kazakhstan  
Contact. +7 727 357 31 77  
[www.halykfinance.kz](http://www.halykfinance.kz)

#### E-mail

[s.chuev@halykfinance.kz](mailto:s.chuev@halykfinance.kz)  
[a.kurmanbekov@halykfinance.kz](mailto:a.kurmanbekov@halykfinance.kz)  
[d.sheikin@halykfinance.kz](mailto:d.sheikin@halykfinance.kz)  
[zh.kantayeva@halykfinance.kz](mailto:zh.kantayeva@halykfinance.kz)  
[m.meterkulova@halykfinance.kz](mailto:m.meterkulova@halykfinance.kz)  
[v.benberin@halykfinance.kz](mailto:v.benberin@halykfinance.kz)

#### E-mail

[m.pan@halykfinance.kz](mailto:m.pan@halykfinance.kz)  
[a.moldakhmetova@halykfinance.kz](mailto:a.moldakhmetova@halykfinance.kz)  
[a.baizhanova@halykfinance.kz](mailto:a.baizhanova@halykfinance.kz)  
[zh.nuralina@halykfinance.kz](mailto:zh.nuralina@halykfinance.kz)  
[sh.zhakanova@halykfinance.kz](mailto:sh.zhakanova@halykfinance.kz)  
[a.abdumazhitova@halykfinance.kz](mailto:a.abdumazhitova@halykfinance.kz)  
[a.mukhametzhanova@halykfinance.kz](mailto:a.mukhametzhanova@halykfinance.kz)

#### Bloomberg

HLFN

#### Thomson Reuters

Halyk Finance

#### Factset

Halyk Finance

#### Capital IQ

Halyk Finance