

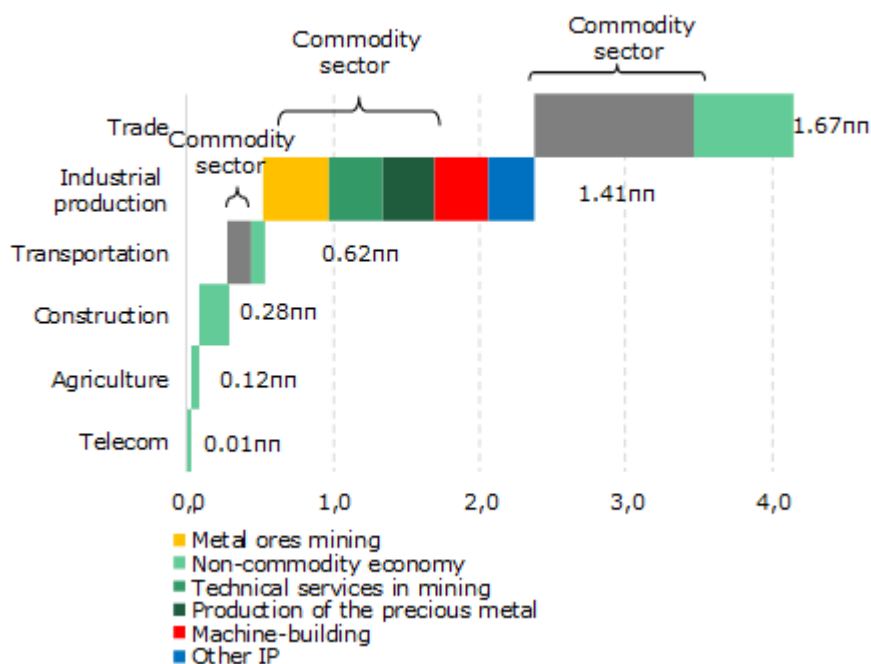
STEI in January–April 2019 made 4.1% yoy

Dmitriy Sheikin — May 17, 2019

In January-April 2019, the STEI reached 4.1% yoy, which is lower than in 2017 (5.4% yoy) and 2018 (5.0% yoy) the same period. According to our estimates, commodity sector’s contribution to the STEI, including transportation and sales of commodity sector products, was 2.27pp, which is about 66% growth.

Since the beginning of the year, domestic trade (wholesale and retail) that grew 7.3% yoy (+ 2.4% yoy 4M2017, + 6.2% yoy 4M2018), transportation by 4.8% yoy (+ 3.5% 4M2017, 4.6% yoy 4M2018) and agriculture by 3.6% yoy (+2,9% 4M2017, + 3.8% yoy 4M2018) contributed the most to the STEI. Industrial production grew 2.9% yoy and as compared with 4M2017 (+ 7.1% yoy) and 4M2018 (+ 5.1% yoy) remains the lowest metrics in the last three years. Construction in January-April 2019 shadowed all other components of STEI with 8.4% yoy (+6.1% yoy 4M2017, + 2.1% yoy 4M2018). Telecommunication sector in January-April of this year made 0.5% yoy (+ 2.0% yoy 4M2017, + 6.9% yoy 4M2018).

Fig.1. STEI in January–April 2019



According to the Committee on Statistics of the Ministry of National Economy of Kazakhstan (the CS MNE), in January-April 2019, industrial output amounted to T9.294bn in current prices, which is 2.9% yoy than in the same period last year. According to our estimation, industrial production contributed 1.41pp and shared 48.7% of growth.

In mining and quarrying of Kazakhstan, output in January-April 2019 increased by 2.6% yoy (+ 4.9% yoy in January-April 2018). Crude oil output in January-April 2019 made -1.1% yoy (+ 5.9% yoy in January- April 2018). According to the CS MNE, crude oil and natural gas output in January-April 2019 accounted for 25 349 thousand tons (25 399.8 thousand tons in January-April 2018), which is 28.5% of the targeted output for 2019 (89.0 million tons the latest target of the Ministry of Energy of the Republic of Kazakhstan). In mining of metal ores, there is a multidirectional growth trend depending on metal ore type. Thus, non-ferrous ores mining reached 17.2% yoy (+2.1% yoy in January-April 2018), while iron ore output made -4.3% yoy (+3.9% yoy in January-April 2018).

Crude oil and natural gas contribution to STEI, according to our calculations, in January-April 2019 was negative and amounted to -0.25pp. Commodity sector contribution to the STEI, including taking into account the transportation and sales of commodity sector products, was 2.72pp, which is about 66% growth.

Manufacturing in the reporting period of 2019 made 3.5% yoy. (+ 5.9% yoy in January-April 2018). In manufacturing, light

industry with 27.4% yoy (+2.1% yoy in January-April 2018), beverage production 22% yoy (+ 8.2% yoy in January-April 2018), plastic products production industry 17.8% yoy (+ 8.5% yoy in January-April 2018) demonstrated two-digit increase in production in the period. Metallurgy showed a negative growth of -1.5% yoy in the period (+4.1% yoy in January-April 2018). Ferrous metallurgy accounted for -11.2% in January-April 2019 (+ 6.1% yoy in January-April 2018).

Domestic trade made 7.3% yoy in January-April of 2019 with retail sales of 5.3% yoy (+ 5.4% yoy in January-April 2018), and wholesale 8.0% yoy (+ 6.8% yoy in January-April 2018). According to our calculations, trade contributed to the STEI 1.67pp in January-April 2019. The share of commodity sector in domestic trade (including wholesale and retail trade in oil and oil products, metals and products from them), according to our current estimate, is at least 70% of the total.

Transportation ensured a 0.62pp increase in the STEI in January-April 2019 and amounted to 4.8% yoy (4.6% yoy January-April 2018). Positive dynamics of freight turnover was in air transportation 55.3% yoy, in automobile transportation 15.0% yoy. Railroad and maritime freight evidenced decline at 1.4% yoy and 86.8% yoy. In transportation by pipelines, freight turnover decreased 5.8 yoy. Transportation of commodity sector products by all modes of transport, according to our estimates, is at least 75% of the total cargo transportation.

Gross output of agriculture in January-April 2019 made 3.6% yoy (+3.8% yoy in January-April 2018). Cattle breeding output increased by 3.7% yoy. Contribution of agriculture to the STEI in January-April 2019 amounted to 0.12pp.

Construction sector grew in January-April 2019 was 8.4% yoy (2.1% yoy January-April 2018). The contribution of construction to the STEI in the analyzed period was 0.28pp.

Telecommunication contributed the least to the STEI and made 0.01pp in January-April of the current year, evidencing the growth rate of 0.5% yoy (+ 6.9% yoy January-April 2018).

Fixed assets investments in January-April 2019, according to the preliminary data of the CS MNE, was 6.7% yoy (+ 28.9% yoy in 4M2018). In nominal terms, investments in fixed assets reached T2.914bn within the analyzed period.

Our opinion

In January-April of this year, there is a slight decrease in the share of the commodity sector in the growth dynamics of the STEI. A negative growth in coal and lignite production by 3.6% yoy, crude oil and natural gas production by 1.1% yoy, and iron ore production by 4.3% yoy contributed to the reduction of the raw materials sector in the economy growth in the period. The reduction in coal and lignite mining resulted from a reduction in its exports to the Russian Federation, as well as a reduction in domestic consumption. The reduction in mining and production of ferrous metallurgy products (steel and iron) is due to a technological accident at the enterprise of JSC ArcelorMittal Temirtau last year, as well as to carrying out technological work to remove the upper layers at the Lisakovskoye deposit in Kostanay region. Reduction in demand for ferrous metallurgy products from Iran, which began to increase its own production volumes and introduced restrictive import duties, also conditioned the slow-down of the industry. The reduction of oil and gas condensate production resulted from technical work planned for April of this year at the Kashagan field.

The observed growth of the economy of Kazakhstan is still below the figures for 2018-2017 and 66% of this growth in January-April 2019 is supported by the republic's commodity sector. A noticeable increase in the manufacturing industries cannot provide a significant contribution to the overall growth of the economy, as the share of the commodity sector in the industry (mining and quarrying) remains high and accounts for 56.8% of the total industrial production and 27.7% in STEI. Have the mining and processing of metals as well as the production at the Kashagan field recovered, the oil output of which is planned to increase over 370,000 barrels per day, the share of commodity sector in the growth of the economy will return to 70% -75%, which is quite expected given the current structural imbalances in the economy.

In connection with the planned maintenance works at the Karachaganak in September and Tengiz oilfields in August - October of the current year, the predicted volume of oil production in the republic will be 89 million (90.3 million in 2018), which will affect the growth rates of the economy, which, according to our current forecast, it will be 3.6% yoy.

© 2021 Halyk Finance, a subsidiary of Halyk Bank.

For contact details see the information on Halyk Finance website 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 an 'as is' 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.

© 2021 All rights reserved

Research	Department	Telephone	E-mail
Stanislav Chuyev	Head		s.chuyev@halykfinance.kz
Assan Kurmanbekov	Macroeconomics		a.kurmanbekov@halykfinance.kz
Dmitriy Sheikin	Macroeconomics		d.sheikin@halykfinance.kz
Zhansaya Kantayeva	Fixed income		zh.kantayeva@halykfinance.kz
Madina Meterkulova	Equity		m.meterkulova@halykfinance.kz
Vladislav Benberin	Equity		v.benberin@halykfinance.kz

Sales	Department	Telephone	E-mail
Mariya Pan	Head		m.pan@halykfinance.kz
Aizhan Moldakhmetova	Institutional		a.moldakhmetova@halykfinance.kz
Asel Baizhanova	Institutional		a.baizhanova@halykfinance.kz
Zhanna Nuralina	Retail		zh.nuralina@halykfinance.kz
Shynar Zhakanova	Retail		sh.zhakanova@halykfinance.kz
Aliya Abdumazhitova	Retail		a.abdumazhitova@halykfinance.kz
Alya Mukhametzhanova	Retail		a.mukhametzhanova@halykfinance.kz

Halyk Finance

Abay av. 109 «B», 5th fl.
 Almaty, Kazakhstan, A05A1B4
 Tel: +7 727 331 59 77
www.halykfinance.kz

Bloomberg

HLFN

Thomson Reuters

Halyk Finance

Factset

Halyk Finance

Capital IQ

Halyk Finance