

KASE MARKETS

2018 was for Kazakhstan's financial market ambiguous, too: the market was affected by the slowdown of the global economy, trade wars and sanctions; foreign investors were less interested in tenge-denominated assets.

A distinguishing feature of 2018 was the presence of a turning point that divided the year in two periods with different moods. In the first quarter of 2018 the conditions of Kazakhstan's exchange market kept the mood of 2017, when thanks to the favorable situation on the securities market as a result of a stabilization of the tenge exchange rate and a decrease in interest rates of banking products we saw an increased demand for tenge-denominated exchange instruments both from Kazakhstan's residents and foreign investors.

Until the beginning of the second decade of April Kazakhstan's stock index was moving upwards continuing its ascension after conquering the 58% mark in 2016 and the 59% mark in 2017. Based on Q1 2018 results KASE Index was up 12.7%, for comparison during the same period in 2017 this indicator grew by 14.4%, in 2016 – by 13.1%. At the same time, the equity market was not overheated. If in May of the previous years, after the end of the traditional dividend payout period KASE Index revived, and corporate stories of the issuers were confidently pushing it upwards, in the year under review KASE Index was weakening together with the national currency.

Besides, a significant impact on KASE Index came from Kaz Minerals stocks that fell by the more than a third from KZT 3,800 to KZT 2,530 following the release of a negative forecast of several foreign investment banks with regard to the copper price in 2018 (copper prices fell indeed by 20% in 2018 because of a trade conflict between the US and China and pressure on the global demand¹) and an increased debt burden on the company after the purchase of Bayim copper mine in Russia. Based on 2018 results, KASE Index rose by 6.6% to 2,304.94 points.

The total amount of transactions in all sectors of the exchange market reached an equivalent of USD 372.1 bn, or KZT 127.8 trln. Despite the 15.6% decrease in the total trading volume in KZT terms and 20.4% decrease in USD terms, we have seen several important positive trends pointing at the gradual growth of the securities market's capacity.

The confident growth of the trading volume was to see on the securities market. Based on the year's results its value increased by 41.2% YoY, to KZT 4.9 trln. The total amount of trading on both the primary and secondary equity markets and corporate bond market showed more than a two-fold growth.

1. Source: Bloomberg.

On the secondary equity market the amount of trading grew from KZT 261.8 bn to KZT 539.3 bn. With taking into account special trading sessions on the secondary market, the amount of trading increased from KZT 147.7 bn to KZT 431.5 bn over the year. The amount of trading in stock from the index universe rose from KZT 48.7 bn to KZT 168.4 bn. On the equity market the number of trading participants, the number of issuers and listed securities increased.

On the corporate bond market there was a significant growth in the primary offerings sector, whose volume rose 2 times to KZT 1,858.2 bn compared with KZT 864.5 bn in 2017.

In the sequence of important events regarding the securities market development, it is worth noting that Kazakhstan's GS were admitted to the international clearing system Clearstream, which is likely to influence the GS market's liquidity on account of more foreign investors coming over.

The foreign currency market's capacity didn't significantly change in the year under review. The amount of trading on the foreign currency market reached KZT 13.4 trln in 2018, which is up 9%, or KZT 1.1 trln, on the previous year. The growth trend was related to the slightly increased volatility of the currency market during periods of the pressure on the exchange rates of the ruble and tenge.

The money market demonstrated a relative decrease. The total amount of trading on the money market fell by 19.3%, or KZT 26.2 trln, to KZT 109.5 trln. The money liquidity shrank because of the decreased share of institutional participants on the currency swap market. In 2018 the inflation continued its gradual decrease to 5.3% APR in December (-1.8% APR YoY). Against this background the National Bank kept loosening its monetary policy, decreasing the base rate by 100 b.p. to 9.25% APR over the year. Based on results of the meeting on June 4, 2018 it was reduced to 9.00% APR. As before, the dynamics of the yield landmark defined the direction in which short-term borrowing rates on KASE moved. Accordingly, by the end of the year all indicators of the money market demonstrated a decrease. There were no tenge or dollar cash shortages, with the demand for money market instruments showing no big changes with regard to the repo market, and reducing on the part of the currency swap market.