



NATIONAL BANK OF KAZAKHSTAN

Seasonal factors of the money and FX markets

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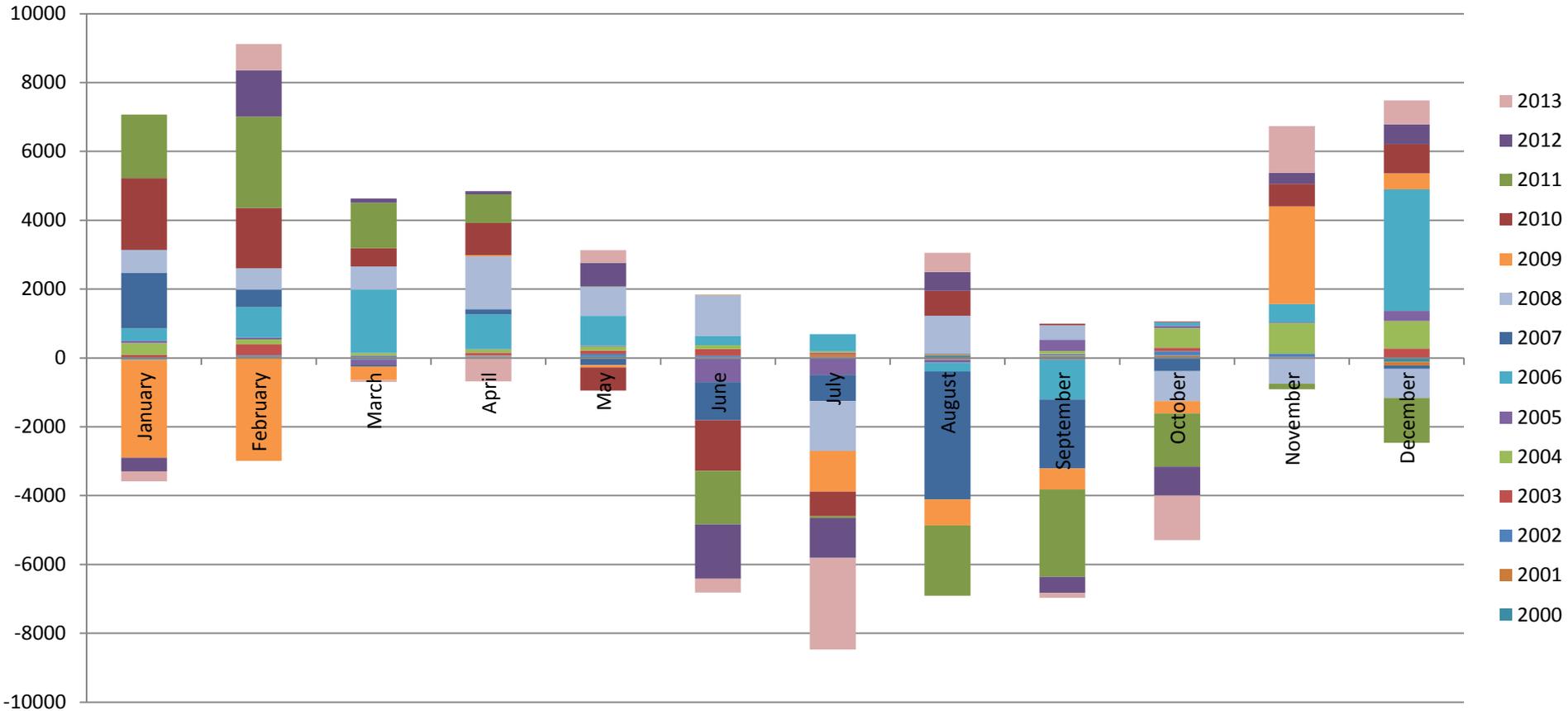
Seasonal factors of the money and FX markets

- The dynamics of Kazakhstani money and FX markets are largely explained by seasonal factors:
 - Periods of tax payments: monthly/quarterly during 20-25 dates. Largest payments occur on a quarterly basis during 20-25 dates of the 2nd month following the calendar quarter
 - Government spending: due to high dependence on import, great deal of budget spending directly converts to import. The active phase of government spending usually begins in the 2nd half of the calendar year
 - Holiday season: March (Nauryz), July-August (school break), December (Christmas/New year)



Seasonality of FX market

FX Interventions, mln. USD



Seasonality of FX market

- FX interventions are an approximation of the trading volumes of USD/KZT on KASE as during the examined period NBK was targeting USD/KZT exchange rate and thus acted as a main counterparty for USD/KZT on both sides
- There is a seasonal trend:
 - January-May and November-December: excess supply of USD
 - June-October: excess demand for USD
 - Certain periods (like 2009) are not representative due to structural shocks: sharp decline of oil prices, banking crisis, increased devaluation expectations



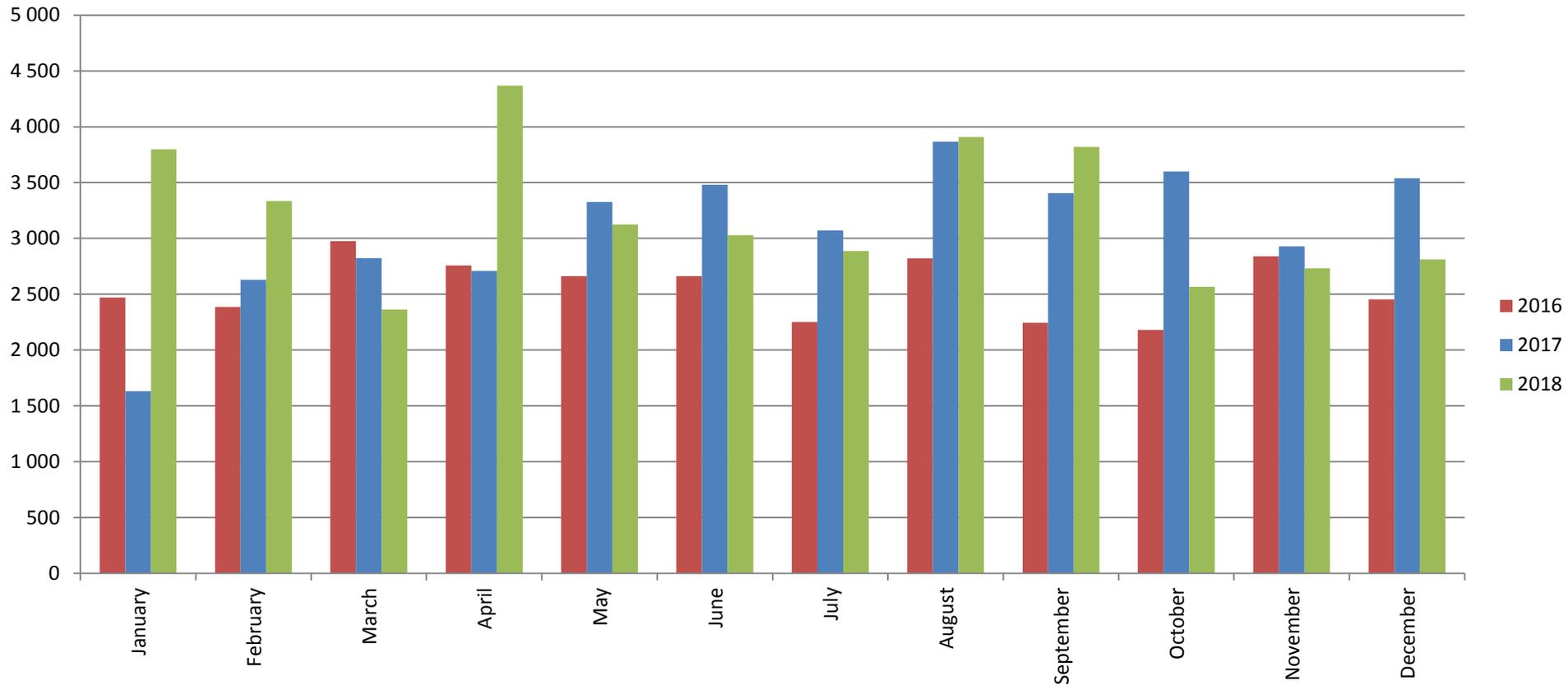
Seasonality factors: Government spending

- Given the share of the public sector in the economy government spending significantly affects GDP
- Despite the republican budget is adopted for 3 years, the actual spending is carried out each calendar year separately
 - The beginning of the year marks the start of the budget spending in the relevant year, which implies various bureaucratic procedures: tenders, contracts for the supply of goods/services, etc.
 - Thus, the active phase of government spending usually begins in the 2nd half of the calendar year



Seasonality factors: Government spending

Imports from Russia, mln. USD

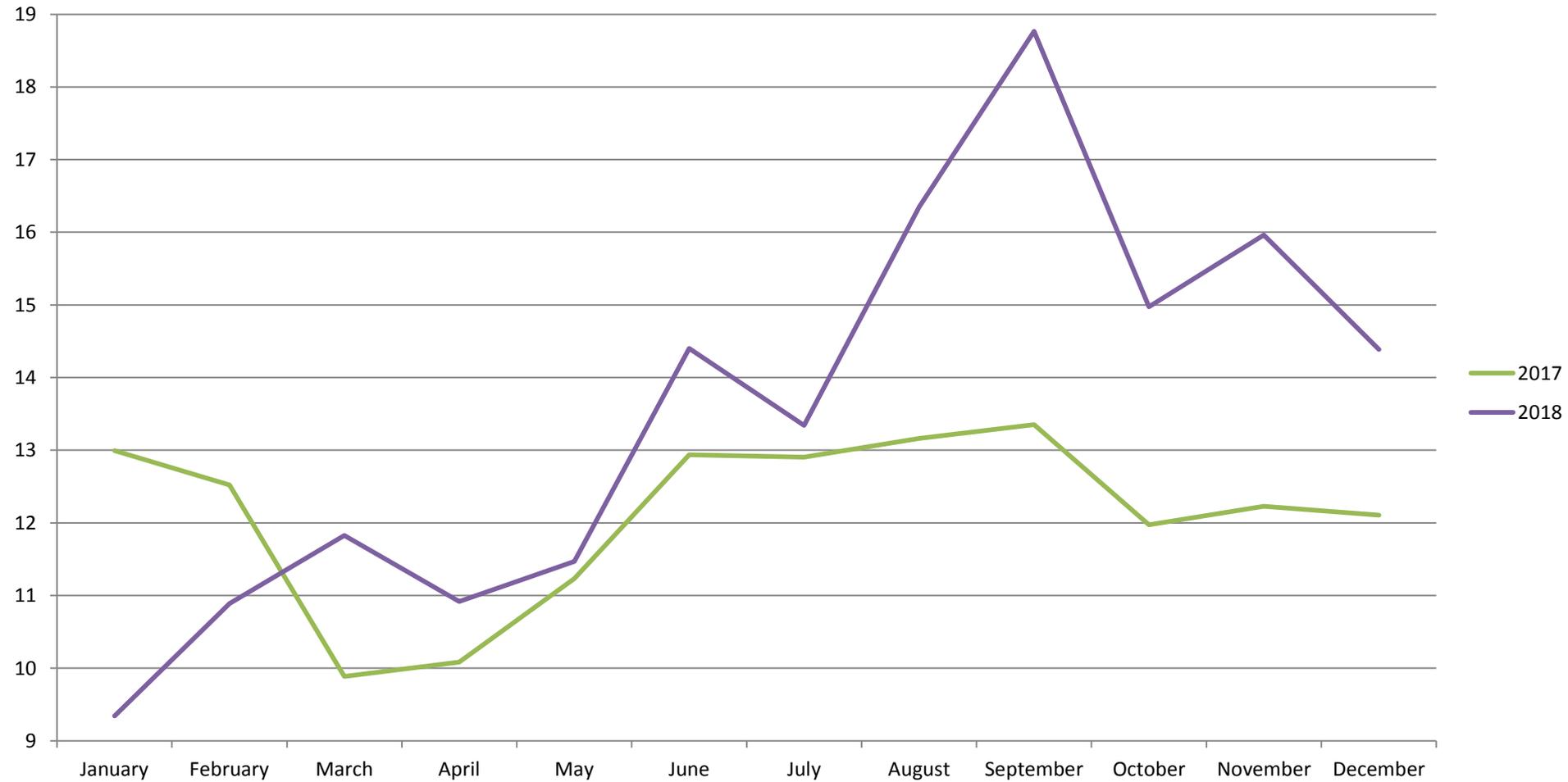


Seasonality factors: Government spending

- Imports from Russia for 2016-2018 is an approximation of government spending
- In recent years, imports from the Russia have grown substantially which has led to significant trade imbalance between Russia and Kazakhstan
 - The share of imports from the Russia is about 40% of total imports
- There is a seasonal trend: a gradual increase in imports during the calendar year
 - Certain periods (like April 2018 due to appreciation of tenge against ruble) are not representative



Seasonality factors: NDF Implied Yield 1M ask



Implications

- Seasonality of the Kazakhstani FX market in the environment of a free-floating exchange rate creates conditions for arbitrage transactions
- Due to rational expectations the effect of periods of tax payments is smoother than it used to be:
 - part of USD sales is carried out before 20-25 dates
- With the development of FX derivatives the seasonality will be smoothed further



Discussion

Q1: How do you exploit seasonalities in FX market to make profit?

Q2: Do you observe “adaptation” of market participants to existing seasonalities in FX market?

Q3: How do you fulfill clients’ (exporter companies) orders to sell USD in terms of timing?

Q4: What stops banks from offering exporting companies instruments for hedging FX risks?

