

National Bank Conducted Interventions Amid Surging Demand for Foreign Currency

The domestic foreign exchange market is undergoing a wave of growing demand for foreign currency against the background of a deteriorating situation in external markets. NBK Deputy Governor Aliya Moldabekova spoke about actions of the National Bank during the period of volatility and speculative sentiment.

- Yesterday, foreign exchange market trading recorded a maximum volume of deals since the beginning of this year, tenge exchange rate weakened to the level of 436 KZT/ USD. What was the reason? Has the National Bank taken any action?

- Indeed, yesterday, December 2, trading volume of the tenge-dollar pair on the domestic stock exchange market reached USD 292 million, a record high since April 2020. Increase in the trading volume and weakening of the exchange rate to 436 KZT/ USD took place due to higher demand for foreign currency, which was directly related to the following factors.

First, it is the sharp drop in oil prices due to growing concerns among investors about spread of Omicron strain. Thus, on December 1, Brent quotes went below USD 70 per barrel and reached USD 68.14, a minimum since this August.

Second, decline in oil prices to local lows have provoked an extra domestic demand for foreign currency from companies and households. Due to the fact that it was a day off on December 1 in Kazakhstan, a part of the demand was realized through online platforms of second-tier banks. Therefore, almost all the banks, whose systems allow online foreign currency converting, found themselves in the morning on December 2 in a short position, i.e. had to purchase the foreign currency that was sold beyond business hours to their customers.

And part of this demand poured into the domestic exchange market immediately after the trading opened. Therefore, yesterday banks bought currency for their clients both to close a short position and to execute new orders.

Third, significant demand for foreign exchange currency was fueled by non-resident investors as well. In conditions of a global outflow from emerging markets, non-residents exchanged back from tenge to foreign currency. The increase in demand was reflected in quotes on the interbank market, where the exchange rate reached 441 KZT/ USD.

In order to stabilize the situation in the domestic foreign exchange market amid a significant excess of demand for foreign currency over its supply, on December 2 the National Bank conducted interventions for an amount of USD 64.6 million. This measure made it possible to prevent an increase in speculative sentiment and destabilizing surges in the exchange rate. Extra demand associated with short positions of banks and exit of non-residents was fully satisfied.

The market situation remains volatile. Against the background of the recent statements by the Fed Chairman J. Powell about sooner curtailment of the quantitative easing program, the USD continues its global strengthening.

Demand for foreign currency in the domestic market remains. By the end of the year, companies are in an active phase of developing their budgets, making payments, which supports demand for foreign currency.

Despite yesterday's OPEC+ decision to keep previous agreements on a gradual increase in production volumes in force, oil quotes won back the primary overreaction and closed adequately around USD 70 per barrel.

Further development of the situation will to a large extent be determined by a spread pace of the new coronavirus strain and its resistance to vaccines. The National Bank continues to closely monitor the situation and is ready to take adequate measures to support the market.