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**The perspectives of
«Tenge-Dollar's» relationships**

Oil prices became critically defining factor for economy of Kazakhstan. Not only economic growth, but also social obligations of the state and an exchange rate of national currency will depend on prices of oil in 2017. Analytics have a whole range of opinions on this point, from cautiously optimistic to downright pessimistic. The world oil market is paradoxical. The main reasons for reduction of price of oil are known: strengthening of US dollar, surplus of production of oil and increase of oil reserves. Moreover, the negative impact on the oil prices will be made by slowdown in chinese economic growth and removing sanctions against Iran. Devaluating currency will drop until fundamental changes come. In this case it means returning of confidence and growth of the Kazakhstan economy, substantial increase of prices of oil and other key primary goods. On this basis, in article the authors analyzed the dependence of the exchange rate of the national currency of Kazakhstan on oil prices.

Key words: tenge, dollar, oil, price, currency, economy, exchange rate, OPEC, oil production.

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**«Теңге-доллар»
қатынастарының болашағы**

Мұнай бағалары Қазақстан экономикасы үшін айқындаушы факторға айналды. 2017 жылы олардың өзгеруіне байланысты экономикалық өсім ғана емес, сонымен қатар мемлекеттің әлеуметтік міндеттемелері мен ұлттық валюта бағамы да тәуелді болады. Бұл жөнінде талдаушылардың пікірі әр алуан: ұстамды және оптимистік пікірден бастап ашық түрдегі пессимистік пікірлерге дейін. Әлемдік мұнай нарығы парадоксалды. Мұнай бағасының түсуінің басты себептері белгілі: АҚШ долларының нығаюы, мұнайды тым артық өндіру және мұнай қорларының өсуі. Сонымен қатар, Иранға қарсы санкцияларды алып тастау және Қытай экономикалық өсу қарқынының төмендеуі мұнай бағаларына өзінің негативті ықпалын тигізеді. Күрделі өзгерістер орын алатын болмаса, құнсызданатын ақшаның шегі болмайды. Бұл жағдайда ол Қазақстан экономикасының өсуі және оған деген сенімділікті қайтару, мұнай және басқа да негізгі шикізат тауарлары бағасының айтарлықтай өсуі. Осыған орай, мақалада авторлар Қазақстан ұлттық валютасының курс орнатуының мұнай бағасына тәуелдігін талдады.

Түйін сөздер: теңге, доллар, мұнай, баға, валюта, экономика, айырбас бағамы, ОПЕК, мұнай өндіру.

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**Перспективы
«тенге-долларовых» отношений**

Цены на нефть стали критически определяющими для экономики Казахстана. От того, какими они будут в 2017 году, зависит не только экономический рост, но и социальные обязательства государства, и курс национальной валюты. Прогнозы аналитиков на этот счет – это целая палитра мнений, от сдержанно-оптимистичных до откровенно пессимистичных. Мировой нефтяной рынок парадоксален. Основные причины снижения цены на нефть известны: укрепление доллара США, переизбыток производства нефти и увеличение запасов нефти. Более того, свое негативное воздействие на стоимость нефти окажут замедление роста китайской экономики и снятие санкций с Ирана. Для девальвирующей валюты дна не существует до тех пор, пока не произойдут фундаментальные изменения. В данном случае это возвращение уверенности и роста казахстанской экономики, значительное повышение цен на нефть и другие ключевые сырьевые товары. Исходя из этого, в статье авторы анализировали зависимость курсообразования национальной валюты Казахстана от цены на нефть.

Ключевые слова: тенге, доллар, нефть, цена, валюта, экономика, обменный курс, ОПЕК, нефтедобыча.

**THE PERSPECTIVES
OF «TENGE-DOLLAR'S»
RELATIONSHIPS**

After World War II the US dollar became the universal currency in the world. This is convenient for mutual settlements between countries, dollar simplifies communication between economies of different levels. Even the most ardent opponent of America wants to find a hundred dollars lying on the road. Any uneducated citizen understands that the dollars are good money.

But not everything is so beautiful and bright. Country which prints universal bargaining unit without any control can have a significant impact on the other weaker economies. It got to the ridiculous: the very birthplace of «green» owes the Federal Reserve System billions of dollars. Only states with strong economies are not so dependent on the dollar. Moreover, the euro strengthened at 5-10% during last sixteen years. The states, most dependent on the dollar, usually have a weak economy, unstable political system. The numbers of such countries include the majority of post-Soviet countries. Last year's situation in Russia is particularly alarming. Worse things happen only in Ukraine, but there is a clear situation – the war, the revolution, the eternal struggle between bandits and thieves.

Analysts forecast are based on these factors:

- sanctions
- falling prices and demand for oil,
- decline in GDP of the country,
- military conflicts,
- the arrest of foreign assets,
- raw nature of the economy,
- partial international isolation,
- withdrawal of capital and lack of investment,
- low foreign exchange earnings,
- a negative trade balance,
- a crisis of the banking system,
- the global economic downturn,
- corruption,
- the fall of the international authority,
- unpredictable foreign policy.

It is difficult to identify a single, most important reason among above-listed ones. It is a tight tangle of problems with no beginning and no end. One begets the other. The global economic crisis has reduced demand for hydrocarbons, investors are afraid to invest and

try to withdraw money from a collapsing economy. Those who are willing to invest do not want to pay bribes to officials. Hot spots of the planet curtail international economic activity. Refugee flow awakens nationalist sentiments in Europe. As a result – everyone suffers. And the poorer and simpler person, the harder his life. Kazakhstan has a very hard time right now for currency borrowers. Their real debt for three years has tripled, while revenues have remained former. Currency maïdan may appear not only in Ukraine but also in Kazakhstan.

Even the most optimistic financiers and economists do not exclude the fall of tenge to 420 units for one dollar. This is confirmed by experts’ forecasts. This even option is possible with a decrease in oil prices to \$ 18-20 per barrel. The growth of production outside OPEC – in Russia, the UK and Brazil, and a constant level of production of shale US manufacturers, as well as additional quantities of oil coming from Nigeria, Libya, and Iran, is currently putting pressure on the price quotations, and could push oil prices even below today’s level. Production growth outside OPEC – in Russia, the UK and Brazil, and a constant level of production of shale US manufacturers, as well as additional quantities of oil coming from Nigeria, Libya, and Iran, is currently putting pressure on the price quotations, and could push oil even below current level. OPEC at the summit signed – the first since 2008 – an agreement to cut production by about 1.2 million barrels per day to reduce the excess supply in the global market and support prices. Oil production will be limited in order to stabilize prices in the market. Implementation of the agreement will be monitored by a special commission of three OPEC countries – Kuwait, Venezuela and Algeria – and the two countries not belonging to the organization, but joining the transaction. The transaction is expected to participate in non-OPEC countries: Kazakhstan, Uzbekistan, Oman, several South American countries – Mexico, Bolivia, Trinidad and Tobago, Colombia. The organization hopes that countries, not participated in OPEC, will reduce oil output by 600,000 barrels per day. Russia had previously reported that it is ready to reduce production by about 300,000 barrels per day. The burden of reducing the production took over Saudi Arabia – the de facto leader of oil cartel, while Iran was allowed to install a new oil level in the 3,797 million barrels per day.

The latest news says that the world’s major manufacturers are not going to curtail production levels, oil storage tanks are full. Attempts of Russian President Vladimir Putin to negotiate with them about a moderate level of export are not en-

couraging. If the OPEC countries will continue increasing the volume of production in 2017 it fundamentally will not threaten the market, because even without freezing of production the excess of supply will gradually decrease. In terms of emotions this is, of course, negative, and probably the price will react with the fall to the news. Falling of oil prices in the middle of November to the level of \$ 44 per barrel in fact was a reflection of the expectations of the market. At that time, the market seems to have no expectations about the meeting (now the Brent price around \$ 49 per barrel). On this basis, we can assume that in the case of non-compliance with the conditions of price, negotiations will not go much lower than \$ 44 per barrel. And if that happens, it will last in a short interval, after which the growth of consumption will once again push the price higher.

According to different data, OPEC may cut oil production by setting indices in the range of 32.5 to 33 million barrels per day. In October, production of «black gold» per day was 34.0 million barrels.

According to statements of Russian President Vladimir Putin, the Russian Federation is also ready to join the OPEC measures to limit oil production, and calls on other oil producing countries to support this initiative.

Kazakhstan’s economy is heavily dependent on oil. So it is needless to say that the growth of Kazakhstan’s GDP, fiscal revenues and exchange rate depends on the dynamics of oil prices. It is therefore important to have an understanding on the factors that affect the price of oil, and projections regarding its future price.

Accelerating the pace of the Fed’s base rate, growth in the US has the potential to increase the pressure on the tenge, as this will increase the outflow of capital from Kazakhstan. To date, the Federal Reserve base rate is 0.5%. The probability that the rate will be raised to 0.75% in December 2016 is large enough and this probability is already incorporated in current prices. Many things depend on the Fed’s actions in 2017.

Today markets expect the acceleration of inflation in the US in 2017. It will push the Fed to increase the base rate accordingly, and thus the yield of US securities. Such a scenario could lead to an outflow of capital and reduction of tenge exchange rate.

The Organization of Petroleum Exporting Countries (OPEC) expects the joining of Kazakhstan to the agree on production. Kazakhstan revised its forecast of oil production at the giant Kashagan field for 2017 to 8.9 million tonnes from the previous 4-8

million tons, and the Republic does not exclude that will join the agreement of the oil exporters and other manufacturers to reduce the extraction of raw materials. Talks about reducing or freezing oil extraction contrast with the republic plans to increase production of raw materials in Kazakhstan in 2017. In mid-November, the Ministry of Energy of the Republic reported that Kazakhstan plans to produce at least 80 million tons of oil in 2017 compared to planned 75.5 million tons due to the largest deposits in 2016. Kazakhstan state company KazMunaiGaz, planned to increase production of oil and gas condensate in 2017 to 23.136 million tons from 22.450 million in this year.

During the first 11 months the weakening of tenge was 0.4% in nominal terms, and for the end of November exchange rate of national currency was 341.44 tenge per US dollar. National Bank continues to follow the principles of a free floating exchange rate. The cost tenge is determined by internal and external fundamentals that provides predictable dynamics of the tenge exchange rate. National Bank has not intervened in the currency market in November. At the moment, the impact of the National Bank on the fundamental trend of the currency exchange rate is zero. The level of confidence in the national currency in October showed a sharp increase – the volume of Kazakhstani tenge savings in banks increased. The total size of individuals' term deposits denominated in KZT in October 2016 increased by 9% and exceeded 2 trillion tenge.

At the same time the population of Kazakhstan actively releases its foreign currency deposits on purchases, which had to be postponed due to the volatility of the situation on the currency market at the end of 2015 – beginning of 2016. The volume of term retail deposits in foreign currency decreased by 2% in October, the reduction of deposit portfolio continues for the third month in a row.

Return of the activity in the market segment open access to banks to the tenge liquidity, which can be converted into more intense issuing loans to the economy.

The most actively increased their tenge deposits in the last year residents of Almaty, Astana and Karaganda regions.

The volume of term deposits in national currency of population of Almaty grew by 336 billion tenge, or 2.4 times. In October, the portfolio grew by more than 72 billion tenge.

Increasing the size of retail time deposits in tenge, belonging to individuals in Astana was less significant – for the year it grew by 149 billion tenge, or 2.2 times. In October, residents of the capital have increased their tenge savings to 18 billion tenge.

In the Karaganda region for the year tenge deposits of citizens increased by 84 billions tenge. This is almost two times more than a year ago. During the last reporting month, the volume of deposits increased by 10 billion tenge.

About 40% of tenge liquidity of time deposits of natural persons in the Republic of Kazakhstan is concentrated in these three regions (one year ago – 46%).

In our opinion, the tenge rate will be affected by short-term factors such as the dynamics of world prices for raw materials, as well as the dynamics of the Russian ruble. In the long-term influence on the course will be the difference in the rate of inflation in Kazakhstan and the United States, the difference in the return on investment in tenge and US dollars, as well as the investment attractiveness of Kazakhstan and capital flows.

Based on the dynamics of the tenge exchange rate and oil prices, it is obvious that dependence on exchange rate on the price of oil is incredibly high. The negative correlation between the tenge and the oil is 86% from the year's beginning.

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