

EMEA Weekly

Wise move to devalue the tenge

The latest ‘news flash’ in the still-ongoing emerging market turmoil was the decision of the National Bank of Kazakhstan (NBK) to devalue the Kazakhstani tenge by around 19% on Tuesday. In line with other emerging market currencies, the tenge has been under pressure for some time. The central bank has been intervening and the foreign currency reserve has been in steady decline for some time. However, the pressure on the tenge has been fairly ‘light’ and therefore Tuesday’s large devaluation was a surprise. We believe the devaluation was a pre-emptive move rather than the NBK caving into pressures.

It should also be noted that since the NBK has been intervening to keep the tenge stable, it has only weakened moderately against the US dollar. Most other emerging markets’ more freely floating currencies have been weakening significantly over the past year.

If we compare the development in the tenge with the Russian rouble since early 2013, we see that the devaluation has just brought the tenge more or less in line with the sell-off in the rouble over the past year. Hence, over this period, the rouble has weakened by around 15% against the US dollar, while the tenge had only weakened a couple of percentage points prior to Tuesday’s devaluation. Therefore, the 19% devaluation could be said to have more or less aligned the tenge with its ‘peers’.

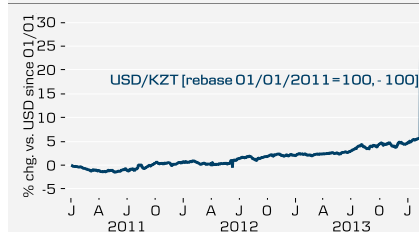
The decision to devalue the tenge does not come without some cost. First, it is likely to push inflation up – at least in the short term. Even though we do not expect a major spike in inflation, it is unlikely to make the decision to devalue more popular among Kazakhstanis. Second, the drop in the value of the tenge also means that we will see an increase in foreign-denominated debt – something which will be not welcomed by the Kazakhstani banking sector, which continues to struggle with large debt problems.

However, overall we believe that the NBK made the right decision. With risk remaining on the downside in oil and gas prices – Kazakhstan’s main exports – and emerging market outflows continuing, it is likely that the tenge could come under more pressure in the future, particularly taking into account that the currency had become significantly overvalued versus peers such as the rouble. Therefore, the NBK would have been forced to continue its policy of FX intervention to prop up the tenge. This does not come for free.

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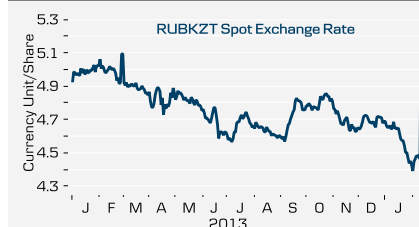
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USD/KZT after devaluation



Source: Macrobond

RUB/KZT



Source: Macrobond

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Hence, FX intervention is effectively monetary tightening. When the NBK sells foreign currency to prop up the tenge, it is effectively reducing the money base. The cost of this is a potentially sharp reduction in economic activity and a pronounced risk of financial sector distress, which could spark another banking crisis. Hence, the cost of having tried to maintain an artificially strong tenge would be significantly bigger than the short-term cost of the devaluation. In this light, we think the devaluation was a wise move. Furthermore, a devaluation seems preferable to the kind of draconian capital controls seen in Ghana and Ukraine (two other commodity exporters) recently, or the steep interest rate hike introduced in Turkey.

Going forward, we think it is fairly clear that Kazakhstani growth is likely to soften on the back on the capital outflows seen over the past year. However, the decision to preemptively and aggressively weaken the tenge is likely to soften that blow, which should help support growth towards the end of the year.

However, now the big question is what the NBK will do going forward. We believe that the right thing to do would be to move closer to a more freely floating tenge or at least a currency regime that is more flexible than has been the case in Kazakhstan. On the other hand, we are not sure that Kazakh policy makers are ready to take that step yet. A lot is dependent on overall EM sentiment and the development in commodity prices going forward. Events could force the NBK towards a truly freely floating tenge, but if capital outflows die down, we believe the NBK will try to keep the tenge fairly fixed around current levels against the dollar.

Calendar

EMEA Data and Events in Week 8

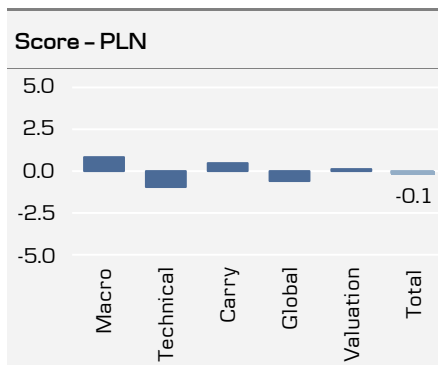
Monday, February 17, 2014				Period	Danske Bank	Consensus	Previous
RUB	-	Industrial production (17-18 Feb)	y/y	Jan	1.6%	1.0%	0.8%
TRY	9:00	Unemployment rate	%	Nov			9.7%
Tuesday, February 18, 2014				Period	Danske Bank	Consensus	Previous
RUB	-	PPI (18-19 Feb)	y/y	Jan	3.7%	4.1%	3.7%
TRY	13:00	Turkish central bank to announce rate decision	%		10.0%	10.0%	10.0%
PLN	14:00	Wages	y/y	Jan	3.0%	3.2%	2.7%
PLN	14:00	Employment	y/y	Jan	0.3%	0.5%	0.3%
HUF	14:00	Central Bank meeting (rate decision)	%		2.75%	2.75%	2.85%
Wednesday, February 19, 2014				Period	Danske Bank	Consensus	Previous
ZAR	9:00	CPI	y/y	Jan	5.8%		5.4%
RUB	13:00	Disposable income	y/y	Jan	0.6%	2.5%	1.5%
RUB	13:00	Real wages	y/y	Jan	3.9%	3.0%	1.9%
RUB	13:00	Unemployment	%	Jan	6.1%	6.1%	5.6%
RUB	13:00	Retail sales	y/y	Jan	3.7%	3.7%	3.8%
PLN	14:00	Industrial production	y/y	Jan	2.8%	3.8%	6.6%
PLN	14:00	Producer prices	y/y	Jan	-0.8%	-0.8%	-0.9%
Thursday, February 20, 2014				Period	Danske Bank	Consensus	Previous
PLN	14:00	Polish central bank releases Minutes					
Friday, February 21, 2014				Period	Danske Bank	Consensus	Previous

Note: The editors do not guarantee the accuracy of the figures, hours or dates stated above

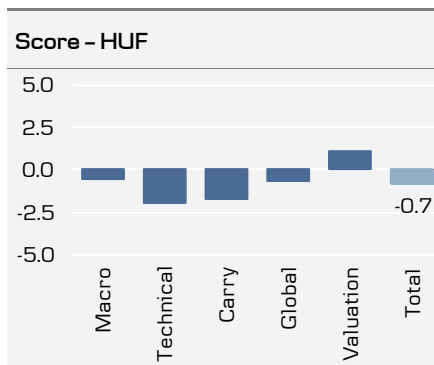
All release times are CET

Source: Danske Bank Markets

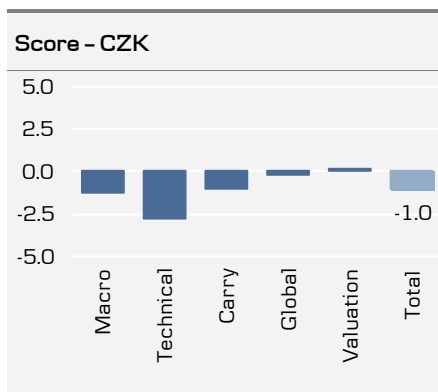
EMEA FX scorecard overview



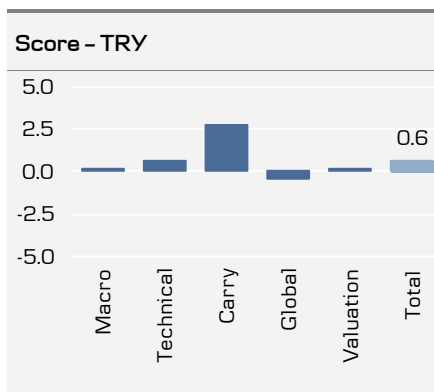
Source: Danske Bank Markets calculations



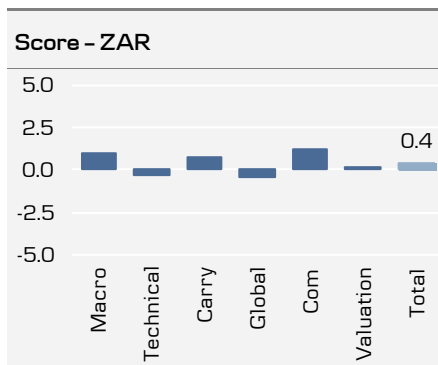
Source: Danske Bank Markets calculations



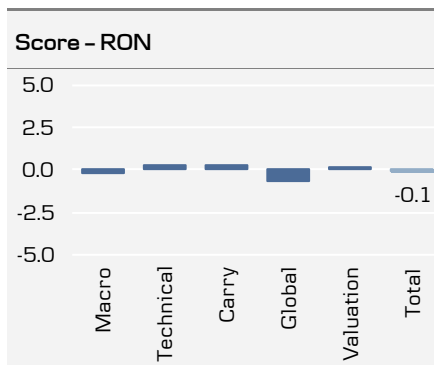
Source: Danske Bank Markets calculations



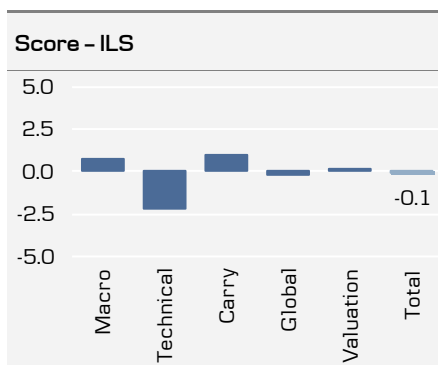
Source: Danske Bank Markets calculations



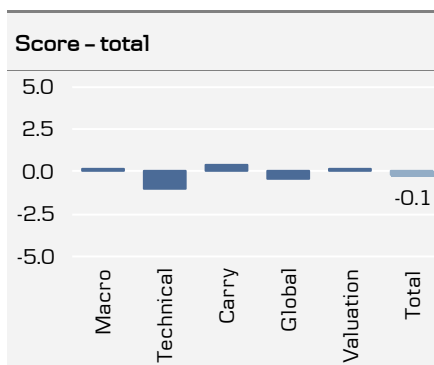
Source: Danske Bank Markets calculations



Source: Danske Bank Markets calculations



Source: Danske Bank Markets calculations



Source: Danske Bank Markets calculations

EMEA FX scorecard outline

- All scores are computed on a scale from +5 to -5. A score is then derived by combining the different sub-scores.
- **Macro:** calculates the growth momentum in different monthly macro indicators.
- **Technical:** calculates the momentum in different volatility measures, short- and longer term moving averages and the level of the relative strength index.
- **Carry:** calculates the momentum in local three-month rates, carry-to-risk, spread versus EUR or USD three-month rates and spread versus peers.
- **Global:** consists of a global growth score based on leading global indicators, a liquidity score based on G3 real rates and a sentiment score based on performance in global equity markets and traditional funding currencies.
- **Valuation:** calculates whether currencies are over/undervalued compared with the long-term trend in the real effective exchange rate (REER). The trend is adjusted for external imbalances, i.e. an imbalance-adjusted REER. The scores are calibrated to reflect the short-term impact of the valuation on FX.

Currency forecasts, EMEA

Currency forecasts, EMEA						
Feb 6. 2014		EUR	USD	SEK	NOK	DKK
USD	Actual	1.36	-	649	620	548
	+3m	1.33	-	662	620	561
	+6m	1.30	-	669	623	574
	+12m	1.26	-	675	635	592
PLN	Actual	4.24	3.11	209	200	176
	+3m	4.15	3.12	212	199	180
	+6m	4.20	3.23	207	193	178
	+12m	4.20	3.33	202	190	178
HUF	Actual	311	229	2.84	27.23	2.39
	+3m	300	226	2.93	2.75	2.49
	+6m	300	231	2.90	2.70	2.49
	+12m	295	234	2.88	2.71	2.53
CZK	Actual	27.6	20.3	32.0	30.7	27.0
	+3m	27.7	20.8	31.8	29.8	26.9
	+6m	28.0	21.5	31.1	28.9	26.6
	+12m	28.5	22.6	29.8	28.1	26.2
LVL	Actual	0.70	0.52	1257	1209	1061
	+3m	0.70	0.53	1257	1179	1066
	+6m	0.70	0.54	1243	1157	1066
	+12m	0.70	0.56	1214	1143	1066
LTL	Actual	3.45	2.54	256	246	216
	+3m	3.45	2.59	255	239	216
	+6m	3.45	2.65	252	235	216
	+12m	3.45	2.74	246	232	216
RON	Actual	4.51	3.32	196	188	165
	+3m	4.50	3.38	196	183	166
	+6m	4.50	3.46	193	180	166
	+12m	4.50	3.57	189	178	166
BGN	Actual	1.96	1.44	452	433	381
	+3m	1.96	1.47	450	422	381
	+6m	1.96	1.50	445	414	381
	+12m	1.96	1.55	435	409	381
TRY	Actual	3.09	2.27	286	274	241
	+3m	2.86	2.15	308	288	261
	+6m	2.86	2.20	304	283	261
	+12m	2.84	2.25	299	282	263
RUB	Actual	47.78	35.1	18.5	17.7	15.6
	+3m	45.7	34.4	19.3	18.1	16.3
	+6m	46.6	35.8	18.7	17.4	16.0
	+12m	46.9	37.2	18.1	17.1	15.9
UAH	Actual	11.53	8.49	76.6	73.5	64.7
	+3m	11.70	8.80	75.2	70.5	63.7
	+6m	11.70	9.00	74.4	69.2	63.8
	+12m	11.47	9.10	74.1	69.8	65.1
ZAR	Actual	15.32	11.27	57.7	55.3	48.7
	+3m	14.50	10.90	60.7	56.9	51.5
	+6m	14.30	11.00	60.8	56.6	52.2
	+12m	14.24	11.30	59.7	56.2	52.4
ILS	Actual	4.75	3.49	186.0	178.5	157.1
	+3m	4.59	3.45	191.8	179.8	162.6
	+6m	4.55	3.50	191.2	178.0	164.0
	+12m	4.47	3.55	190.0	178.9	166.8

Source: Bloomberg, Danske Bank Markets

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