Kazakhstan Bonds Are Better Than U.S. Treasurys

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Going up! Kazakhstan's central banker Daniyar Akishev has managed to stop the blood letting in the currency. The government's willingness to pay and improved growth projections now have bonds from this Central Asian nation beating Treasury debt. (Photo by Daniel Acker—Bloomberg)

Believe it or not, over the last three months, Kazakhstan bond investors have done a better job preserving wealth than those holding Treasury debt. In fact, Treasury bonds and Kazakhstan bonds, both investment grade (though KZ obviously on the low end of the scale) have seen their prices rise and yield contract. But since August, there has been a great unwinding of old-QE economy debt and KZ stands as the perfect testament to that. How can this little known asset be one of the best bond markets around?

The last time Kazkahstan issued a sovereign bond was in 2015 for 2024 and 2044 bonds yielding around 4.6% and 6.2% respectively in dollars. But as of Wednesday, the 2024s were yielding just 3.6%, a full 100 basis points lower.

In other words, Kazakhstan bonds have buyers. U.S. government debt has sellers.

"If this keeps up, I think you have to go and buy bonds elsewhere for a better return," says Jan Dehn, head of research at Ashmore Group in London, a

$52.6 billion emerging markets fund manager with holdings in Kazakhstan. “For an investment grade credit, their yield is okay. Their ability and their willingness to pay debt is very high. You have more indebted investment grade countries in the West that pay outright negative yields,” he says.

Something is happening in the developed economies. They are recognizing that negative interest rates are bad for financials. Zero interest rates are not doing what they were supposed to, get corporations to invest, and quantitative easing has been all about the major central banks, namely the Federal Reserve and European Central Bank, buying and selling bonds and debt derivatives at a penny more than they bought them the day before, pushing yields to the floor. That trade is unwinding. Countries like Kazakhstan that are seen as a generally low credit risk will benefit, even as volatility is expected once the QE trade draws down.

Moody’s changed its outlook on Kazakhstan debt to negative in April, which is a 12 month warning that KZ might lose its investment grade title. Oil prices were of course to blame. But on Oct. 31, Fitch affirmed KZ’s BBB rating with a stable outlook. Good news.

Kazakhstan 2024s. Yield has been in decline all year, just like the 10-year Treasury bond. But over the last three months, as the market prices in rate hikes in the US and the unwinding of QE in Europe, US rates are rising, Kazakhstan rates are falling. Investors are losing capital on USTs, earning it on KZs dollar-denominated bonds.

Kazakhstan's economy is the best of the 'Stans. "It's even much more interesting for investors than Ukraine, for example," says Arent Thijsen, a fund manager with Blauwtulp Wealth Management in Rotterdam.

The currency, clobbered over the last three years, has been strengthening since February. UBS in London and Renaissance Capital in Moscow expect the currency to remain stable rather than move in one direction for long, according to reports published in early October.

Says Dehn in London, "If for some reasons KZ loses its investment grade, I would buy more."