



Economic review - third quarter 2018

Investment Banking

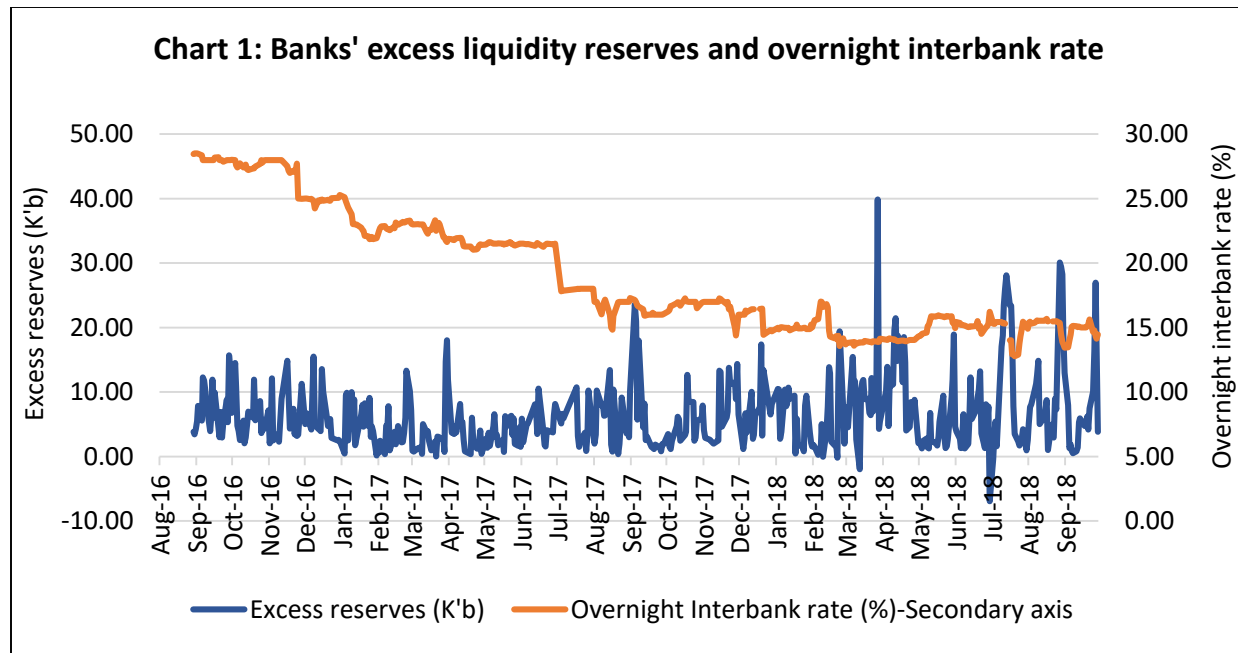
5th October 2018

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1. Interbank market

- 1.1 The third quarter (Q3) of 2018 registered an increase in the levels of liquidity compared to the previous quarter and a corresponding period in 2017. Excess liquidity reserves increased to an average of K9.32b per day from an average of K7.04b per day in the second quarter (Q2) of 2018 mainly on account of proceeds from agricultural sales, and from K5.61b per day in the third quarter of 2017. It is expected that liquidity conditions will tighten up in the fourth quarter of 2018 during the lean period as the Reserve Bank of Malawi (RBM) is likely to intensify mop up operations during the period in an effort to counter effects of rising inflation pressures.
- 1.2 In line with increased liquidity levels in the system, the overnight interbank rate decreased, albeit marginally, to a daily average of 14.84% in the third quarter of 2018 from 14.89% in the previous quarter. Compared to the corresponding period in 2017, the average interbank rates were much higher in the third quarter (16.81%) and in the second quarter (21.48%).
- 1.3 Overnight interbank borrowing slightly increased to an average of K8.15b per day in the third quarter of 2018 from K8.14b per day in the second quarter of 2018. In the third quarter of 2017 interbank borrowing averaged K6.69b per day.
- 1.4 Access from the Lombard facility averaged K8.68b per day during the quarter under review, increasing from K7.43b per day in the second quarter of 2018 and K3.65b in the third quarter of 2017. The Lombard rate was stable at 18.00%.
- 1.5 RBM mopped up a total of K23.88b from the market through open market operations (OMOs) at an average daily rate of 15.00% during the third quarter of 2018, compared to K63.01b mopped up in the previous quarter at an average rate of 15.01%.
- 1.6 Chart 1 provides a summary of excess reserves and overnight interbank rate movements for the last two years. The chart shows a downward trend in the overnight interbank rate and improving levels of liquidity in the system between Q3 in 2017 and Q3 in 2018.



(Source: Reserve Bank of Malawi)

2. Government securities

2.1 The Government raised a total of K163.47b through Treasury Bill auctions during the third quarter of 2018, compared to K138.72b raised in the second quarter of 2018 and K128.27b in the first quarter of 2018. Total applications amounted K196.68b, representing a rejection rate of 16.88%, compared to total applications of K144.91b in the second quarter and K129.96b in the first quarter which represented rejection rates of 4.27% and 1.31%, respectively.

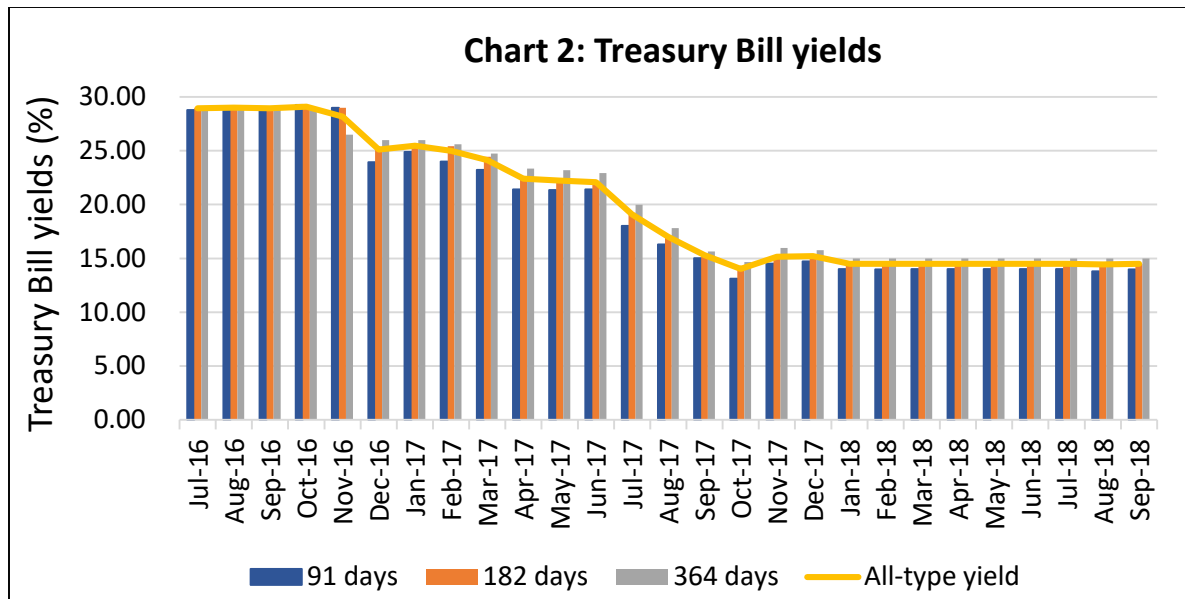
2.2 Treasury Bill yields were steady during the review period, with the 91-day yield at 13.92%, slightly declining from 14.00% in the second quarter and 13.99% in the first quarter. The 182-day and 364-day yields were steady at 14.50% and 15.00%, respectively, in all the

three quarters. The all-type yield averaged 14.47% in the third quarter, compared to 14.50% in the previous two quarters.

2.3 Chart 2 shows that Treasury Bill rates declined between July 2016 and September 2017 before stabilizing throughout 2018.

2.4 There were also auctions for 2 year and 3 year Treasury Notes during the quarter in which a total of K61.85b was raised at the average yield of 18.17% for the 2 year Note and 19.14% for the 3 Year Note.

2.5 Maturities of Treasury Bills, Treasury Notes, Promissory Notes and OMO Repos for the quarter amounted K423.29b, resulting in a net injection of K197.97b.



(Source: Reserve Bank of Malawi)

2.6 Looking forward, Treasury bills yields are expected to remain stable in the near term following the recent decision made during the third meeting of the Monetary Policy Committee (MPC) on 25th and 26th September

2018 to maintain the Policy rate at 16%. However, persistent inflation risks threaten continued stability of interest rates in general in the medium to long term.

3. Foreign exchange market

3.1 The stability of the Kwacha, mainly against USD, that has been exhibited in the last two years continued into the third quarter of 2018. The USD/MWK middle exchange rate during the third quarter of 2018 averaged USD/MWK731.09, increasing marginally by 0.03% from the average of USD/MWK730.88 in the previous quarter, and by 0.12% when compared to the average of USD/MWK730.18 in the third quarter of 2017.

GBP/MWK993.55 in the second quarter of 2018. The Kwacha registered an appreciation of 0.37% against GBP when compared to the average middle rate of GBP/MWK955.38 recorded in the third quarter of 2017.

3.2 However, the Kwacha appreciated by 4.20% against GBP during the review quarter to the average middle rate of GBP/MWK951.84 from

3.3 Relative to ZAR, the Kwacha appreciated by 9.34% during the third quarter of 2018 to the average middle rate of ZAR/MWK52.00 from ZAR/MWK57.35 in the previous quarter, and by 5.36% when compared to the average middle rate of ZAR/MWK54.94 in the third quarter of 2017.

Table 1: Quarterly average middle exchange rates

Currency	Q3 2018	Q2 2018	Q3 2017	Quarterly Change	Y-O-Y Change
USD	731.09	730.88	730.18	▼ 0.03%	▼ 0.12%
GBP	951.84	993.55	955.38	▲ -4.20%	▲ -0.37%
ZAR	52.00	57.35	54.94	▲ -9.34%	▲ -5.36%

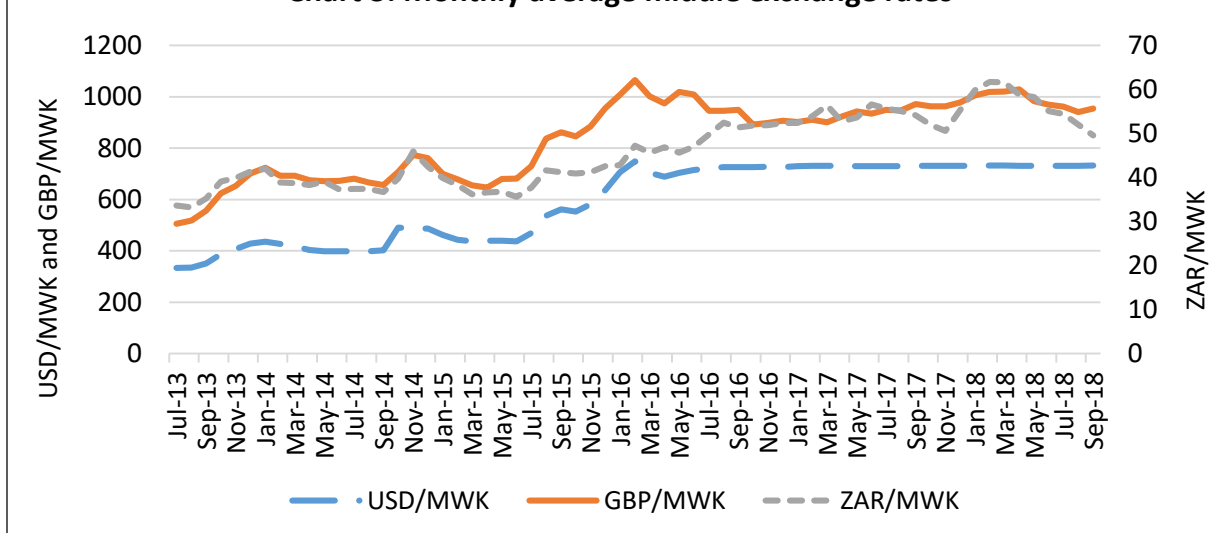
Note: Upward arrow represents appreciation and downward arrow represent depreciation of the Kwacha

Table 2: Monthly average middle exchange rates

Month	USD/MWK	% Change from the previous month	GBP/MWK	% Change from the previous month	ZAR/MWK	% Change from the previous month
Sep-17	730.78	▼ 0.08%	970.81	▼ 2.58%	54.13	▲ -1.71%
Oct-17	731.03	▼ 0.03%	962.77	▲ -0.83%	51.95	▲ -4.02%
Nov-17	730.49	▲ -0.07%	962.82	▼ 0.00%	50.57	▲ -2.66%
Dec-17	730.24	▲ -0.03%	977.63	▼ 1.54%	55.27	▼ 9.29%
Jan-18	730.67	▼ 0.06%	1005.23	▼ 2.82%	59.81	▼ 8.22%
Feb-18	731.49	▼ 0.11%	1019.05	▼ 1.37%	61.64	▼ 3.06%
Mar-18	731.64	▼ 0.02%	1019.95	▼ 0.09%	61.58	▲ -0.10%
Apr-18	731.05	▲ -0.08%	1028.34	▼ 0.82%	58.77	▲ -4.56%
May-18	730.67	▲ -0.05%	982.86	▲ -4.42%	58.26	▲ -0.87%
Jun-18	730.91	▼ 0.03%	969.45	▲ -1.36%	55.03	▲ -5.54%
Jul-18	730.34	▲ -0.08%	961.41	▲ -0.83%	54.44	▲ -1.08%
Aug-18	730.91	▼ 0.08%	940.68	▲ -2.16%	52.00	▲ -4.48%
Sep-18	732.01	▼ 0.15%	953.42	▼ 1.35%	49.56	▲ -4.69%

(Source: Reserve Bank of Malawi)

Chart 3: Monthly average middle exchange rates

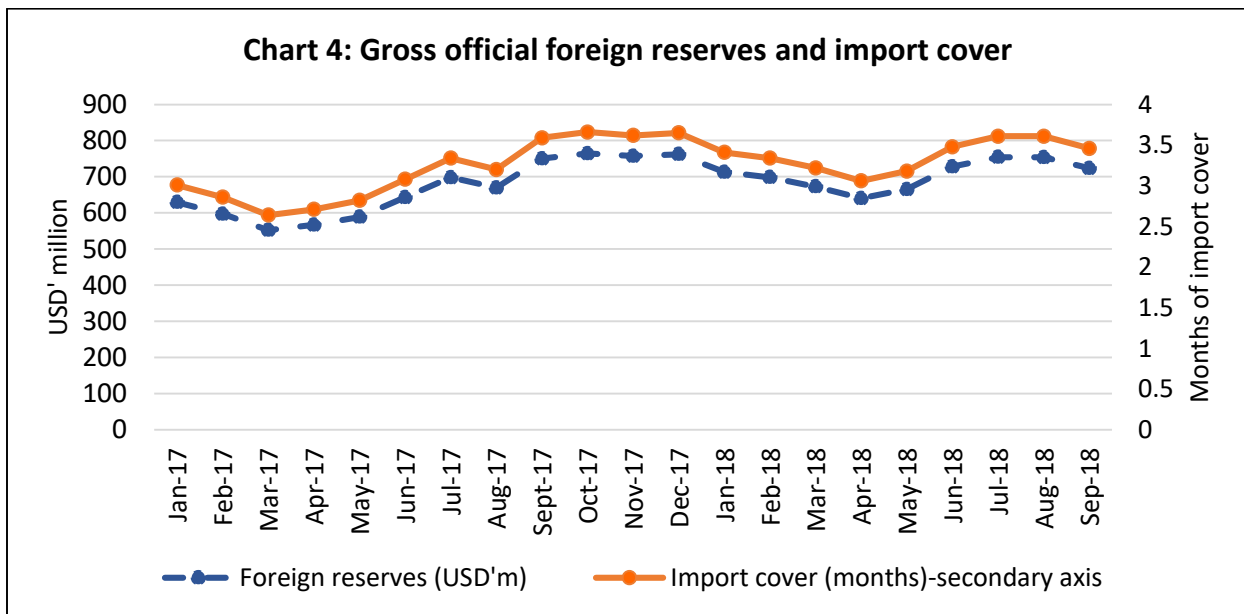


(Source: Reserve Bank of Malawi)

- 3.4 The relative stability of the Kwacha against USD and its appreciation against the other major trading currencies during the review period was largely supported by continued availability of forex in the market due to increased forex inflows from tobacco sales and RBM's commitment in maintaining tight liquidity conditions.
- 3.5 As at the end of week 25 of the tobacco auctions on 28th September 2018, USD337.34m had been realized, compared to USD212.51m realized during a corresponding period in 2017, representing a 58.74% increase. The increase in proceeds from tobacco sales in 2018 relative to the previous year is on account of an increase in volumes sold. As at 28th September 2018, 201.77 million kilograms had been sold, 89.39% higher than

106.54 million kilograms sold during a corresponding period in 2017.

- 3.6 Looking ahead, in the last quarter of 2018, during the lean period, the Kwacha might start to depreciate as demand for forex increases due to increased farm input imports and rising oil prices on the international market. However, official forex reserves are expected to cushion excessive volatility of the exchange rate during the period.
- 3.7 Gross official forex reserves were observed at USD723.79m (3.46 months of import cover) on 28th September 2018, 0.59% lower than USD728.10m (3.48 months of import cover) observed at the end of the second quarter of 2018. Compared to the same period last year, gross official forex reserves were at USD750.23m (3.59 months of import cover), representing a 3.52% decrease.



(Source: Reserve Bank of Malawi)

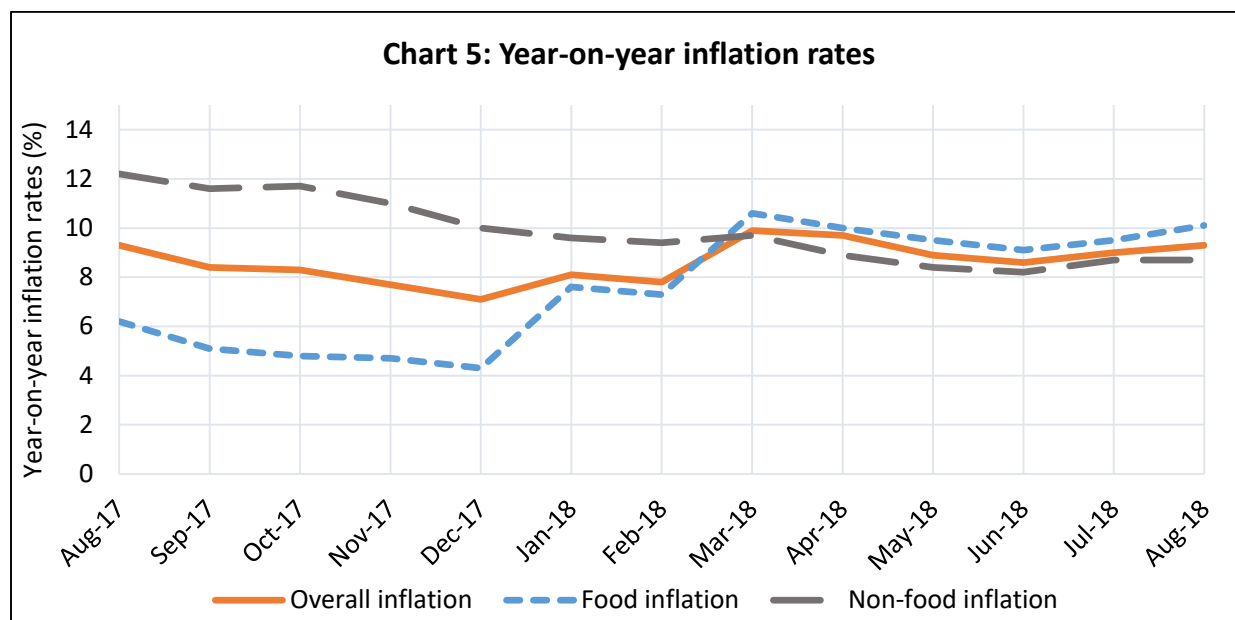
- 3.8 In the medium to long term, depreciation risks to the Kwacha still remain current account imbalances emanating from the country's

weak and undiversified export base and external shocks such as rising oil prices.

4. Inflation

4.1 Annual headline inflation stood at 9.3% in August¹ 2018, up from 9.0% in July 2018 and 8.6% in June 2018. Annual headline inflation for the same period last year (August 2017) was also at 9.3%². The increase in inflation in the third quarter of 2018, compared to the previous quarter, was on account of an

increase in both food and non-food prices. Food and Non-food inflation increased to 10.1% and 8.7% respectively, in August 2018, from 9.1% and 8.2% in June 2018. Annual food and non-food inflation for the same period last year (August 2017) stood at 6.2% and 12.2% respectively.



(Source: National Statistical Office)

4.2 Looking ahead, inflation risks are expected to increase in the ensuing months. Food inflationary pressures are expected to build up in the last quarter of 2018 into the first quarter of 2019 due to a shortage of food following a reduced food harvest in the 2017/2018 season. In fact, the last crop assessment by the Ministry of Agriculture, Irrigation and Water

Development confirmed that maize harvest declined by 22.1% in the 2017/2018 season compared to the 2017/2016 season on account of the fall army worm outbreak, sporadic dry spells and generally uneven distribution of rainfall. However, the effect of food shortage on inflation could be lessened by Government’s intervention in the food

¹ Latest inflation statistics we have are for the month of August 2018. Inflation figures are usually released towards the end of every month, providing an update for the previous month.

² The Consumer Price Index was rebased in December 2017. Hence the inflation rates for 2018 are not strictly directly comparable to the rates for previous years.

market by utilizing food reserves in national silos and imposing prices of maize at ADMARC.

4.3 Non-food inflationary pressures are expected to emanate from upward adjustments in utility tariffs and pump fuel prices and increased government expenditure especially as we draw towards general elections, among other factors. Recently MERA approved a 31.8% electricity tariff hike over a period of four years, with 20% effective on 1st October 2018. Pump fuel prices were also further adjusted upwards by 5% effective 6th October 2018 due to rising oil prices on the international market.

4.4 RBM expects a short-lived tick-up in inflation between the third quarter of 2018 and the third quarter of 2019. They recently adjusted upwards their outlook for average inflation for 2018 to 9.3% from the earlier projection of 9.0% and are expecting an average inflation rate of 9.6% in 2019. In the medium term (three to five years) RBM maintains the inflation rate target of 5%. NKC African Economics expects Malawi annual average inflation to remain in the single digit in the next five years as shown in the following table:

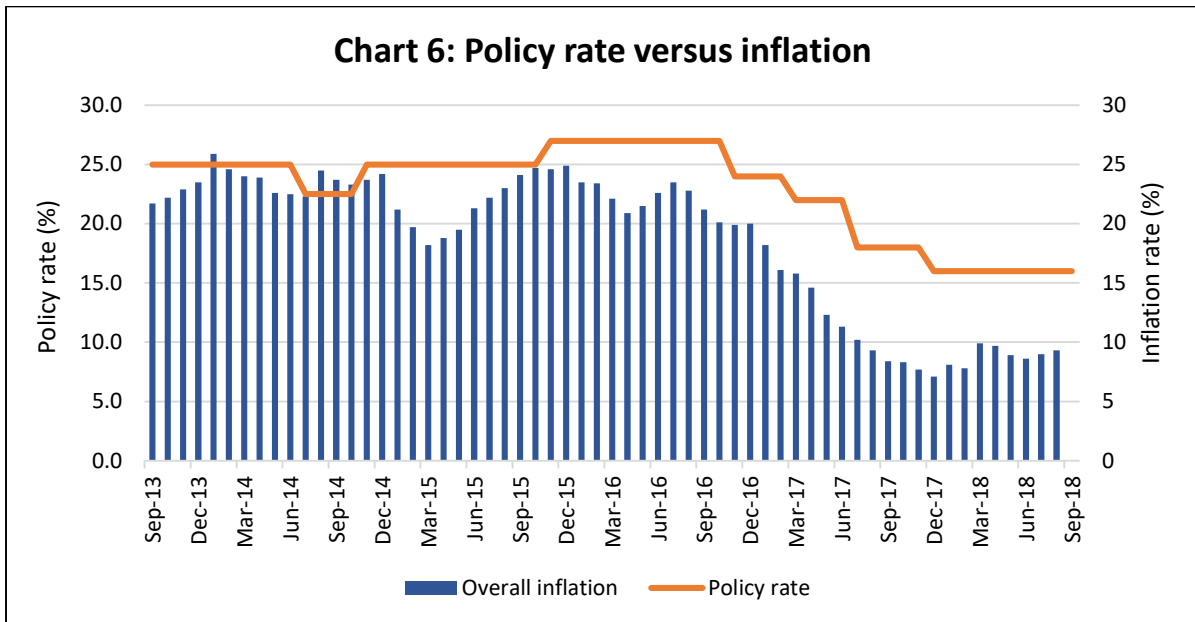
	2016	2017	2018f	2019f	2020f	2021f	2022f
National Statistical Office (NSO)	21.7%	11.5%					
Reserve Bank of Malawi (RBM)			9.3%	9.6%			
Malawi Government	21.8%	11.5%	7.9%	8.2%	7.7%	7.5%	7.7%
World Bank	21.7%	11.5%	10.9%				
International Monetary Fund (IMF)			10.4%				
Economic Intelligence Unit		12.2%	11.4%	12.9%	9.2%	10.0%	11.2%
NKC African Economics	21.71%	12.18%	8.88%	8.39%	8.20%	8.07%	
Average	21.7%	11.8%	9.8%	9.8%	8.4%	8.5%	9.5%

5. Monetary policy

5.1 The MPC met on 25th and 26th September 2018 to review local and global economic developments that inform monetary policy decisions. During the meeting the MPC decided to maintain the Policy rate at 16.00%, the Liquidity Reserve Requirement (LRR) at 7.50% and the Lombard rate at 200 basis points above the Policy rate. In coming up with this decision, the MPC observed that inflation in first three quarters of 2018 remained elevated on account of rising food and utility prices; and that risks to the inflation outlook still persist on account of further increases in administered prices, higher food and global oil

prices, and increased public sector financing requirements. The decision to maintain the monetary policy stance was, therefore, made to ensure that the policy stance remains adequately tight to manage these inflation risk and ensure that inflation declines gradually towards the medium-term objective of 5.0%. It was indicated that the RBM would complement this policy stance with consistent mop-up operations to maintain liquidity conditions at required levels.

5.2 The final MPC meeting for 2018 is scheduled for 12th and 13th December 2018.



(Source: RBM, NSO)

6. Economic growth

6.1 RBM and the World Bank estimate that the Malawi economy grew by 5.1% and 4.0%, respectively, in 2017 on the back of a bumper harvest, recovering from an estimated subdued growth of 2.5% in 2016. In 2018, RBM and the World Bank project that economic activity will moderate to around 4.0% and 3.7%, respectively, due to a decline in agricultural production. Erratic rains and a fall army worm infestation are expected to have had a negative impact on 2018 agricultural output.

6.2 Growth for 2018, according to the Government, will be driven by good performance in the following economic activities: human health and social work, financial services and insurance services, wholesale and retail trade, public administration and defense, information and communication, and transportation storage. However, the World Bank expects the performance of industry and services sectors to remain weak in 2018, with structural challenges related to the intermittent supply of power and water remaining a significant constraint on production.

Table 4: RBM estimates and forecasts of growth rates by economic activity - 2010 constant prices

	2015 ^e	2016 ^e	2017 ^e	2018 ^f	2019 ^f
Agriculture, forestry and fishing	-1.0	-0.10	6.3	0.1	5.8
Mining and Quarrying	1.1	0.4	1.6	2.3	2.7
Manufacturing	3.8	1.3	1.8	3.6	5.1
Utilities	2.4	0.1	2.7	5.2	5.5
Construction	3.5	3.4	4.8	5.3	5.8
Wholesale and retail	4.9	2.3	5.3	5.5	6.0
Transport and storage	4.3	4.9	6.0	5.5	5.8
Accommodation and food service activities	5.1	5.7	4.2	4.6	4.9
Information and communication	8.6	5.0	6.4	5.5	6.1
Financial and Insurance activities	5.6	5.9	6.7	6.1	4.8
Real estate activities	1.9	3.1	3.9	3.7	2.7
Public administration and defense	6.3	6.2	6.7	6.1	7.2
GDP in 2010 constant prices	3.3	2.7	5.1	4.0	6.0

(Source: Reserve Bank of Malawi)

Table 5: World Bank projected growth rates for Malawi

	2016	2017	2018 ^f
Real GDP	2.5	4.0	3.7
Agriculture	-2.3	5.0	2.5
Industry	2.4	2.2	3.0
Services	4.4	4.0	4.5

(Source: World Bank's Malawi Economic Monitor - May 2018)

7. Stock market performance

7.1 The Malawi Stock Exchange was generally bullish in the third quarter of 2018, although the performance was weaker than previous two quarters. The MASI gained by 5.32% during the quarter to close at 32,373.19, compared to the gains of 21.55% and 17.08% in the second quarter and in the first quarter of 2018, respectively. 8 counters registered price gains, 3 counters registered no price

movements, while two counters registered losses during the quarter. The year-to-date (YTD) return on the MASI stood at 49.89% as at 28th September 2018, slightly more than the YTD return of 48.81% registered for the corresponding period in 2017.

Table 6: Share trading summary										
	28-Sep-18	29-Jun-18	31-Mar-18	2-Jan-18	29-Sep-18	Q3 Δ	Q2 Δ	Q1 Δ	YTD Δ	YOY Δ
Market indices										
MASI	32,373.19	30,736.95	25,286.79	21,598.07	20,049.44	↑ 5.32%	↑ 21.55%	↑ 17.08%	↑ 49.89%	↑ 61.47%
DSI	21,621.84	20,033.47	18,009.73	16,272.64	15,780.73	↑ 7.93%	↑ 11.24%	↑ 10.67%	↑ 32.87%	↑ 37.01%
FSI	8,138.23	8,237.82	5,197.43	3,519.43	2,425.75	↓ -1.21%	↑ 58.50%	↑ 47.68%	↑ 131.24%	↑ 235.49%
Q3 Gainers										
BHL	11.31	7.00	28.00	28.00	25.00	↑ 61.57%				
TNM	29.00	24.00	20.00	14.50	14.00	↑ 20.83%	↑ 20.00%	↑ 37.93%	↑ 100.00%	↑ 107.14%
NITL	86.00	73.00	55.00	60.06	60.08	↑ 17.81%	↑ 32.73%	↓ -8.42%	↑ 43.19%	↑ 43.14%
NICO	52.00	46.00	48.00	34.00	34.00	↑ 13.04%	↓ -4.17%	↑ 41.18%	↑ 52.94%	↑ 52.94%
PCL	850.00	772.00	602.00	600.00	570.00	↑ 10.10%	↑ 28.24%	↑ 0.33%	↑ 41.67%	↑ 49.12%
NBM	311.01	300.00	280.00	270.08	270.00	↑ 3.67%	↑ 7.14%	↑ 3.67%	↑ 15.15%	↑ 15.19%
NBS	8.95	8.66	8.70	8.50	7.50	↑ 3.35%	↓ -0.46%	↑ 2.35%	↑ 5.29%	↑ 19.33%
MPICO	19.50	19.49	18.30	15.61	15.61	↑ 0.05%	↑ 6.50%	↑ 17.23%	↑ 24.92%	↑ 24.92%
Q3 Flat										
SUNBIRD	145.00	145.00	110.05	96.00	70.00	↑ 0.00%	↑ 31.76%	↑ 14.64%	↑ 51.04%	↑ 107.14%
STANDARD	670.00	670.00	610.00	610.00	600.00	↑ 0.00%	↑ 9.84%	↑ 0.00%	↑ 9.84%	↑ 11.67%
ILLOVO	240.00	240.00	240.00	240.00	234.81	↑ 0.00%	↑ 0.00%	↑ 0.00%	↑ 0.00%	↑ 2.21%
Q3 Losers										
FMBCH	157.99	160.00	100.00	67.00	45.01	↓ -1.26%	↑ 60.00%	↑ 49.25%	↑ 135.81%	↑ 251.01%
OMU	2,513.25	2,980.00	2,360.00	1,960.00	1,930.00	↓ -15.66%	↑ 26.27%	↑ 20.41%	↑ 28.23%	↑ 30.22%

(Source: Malawi Stock Exchange)

7.2 On 9th July 2018, New Finance Bank Malawi Limited (NFB) listed on MSE a K4.05b medium term note maturing on 28th June 2021, with a coupon rate of 17% payable quarterly. This is the first series of the planned programme of K14b.

7.3 BHL expects its profit for the year ended 30th September 2018 to be 30% lower than the previous corresponding period.

8. Financial results for the half year ended 30th June 2018

Table 7: Published financial results for the half year ended 30th June 2018			
	H1 2018 PAT (K'm)	Movement	H1 2017 PAT (K'm)
Listed companies			
FMB Bank (Malawi only)	6,580	↑	31%
FMB Capital Holdings PLC (USD'm)	20		5,035
MPICO PLC	3,799	↑	38%
National Bank fo Malawi PLC	8,541	↓	-10%
NBS Bank	479	↑	142%
NICO Holdings PLC	5,973	↑	39%
National Investment Trust PLC	1,429	↑	42%
Press Corporation PLC	23,079	↑	227%
Standard Bank	5,532	↓	-32%
Sunbird	1,173	↑	9%
TNM	6,942	↑	46%
Unlisted banks			
CDH Investment Bank	672	↑	34%
Ecobank	2,120	↓	-1%
FDH Bank	1,342	↓	-26%
Nedbank	(1,053)	↓	-15%
New Finance Bank	820	↑	180%
Discount house			
First Discount House	157	↓	-75%
			634