



---

## **Economic review, first quarter to February 2018**

---

### **Investment banking**

**12<sup>th</sup> March 2018**

---

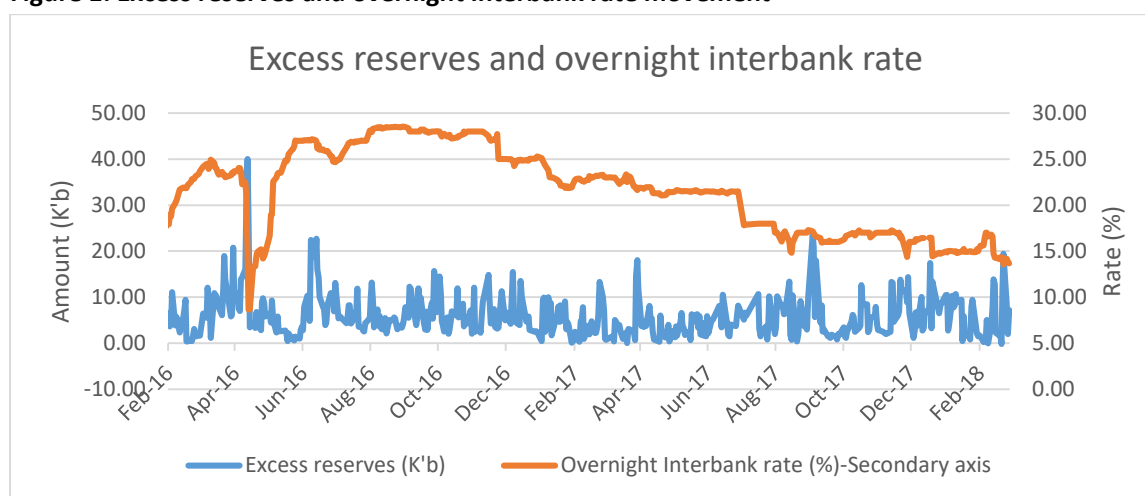
Important disclaimer: The views expressed in this report are those of the authors and are based on information believed but not warranted to be correct. Any views or information, whilst given in good faith, are not necessarily the views of CDH Investment Bank Limited (CDHIB) and are given with an express disclaimer of responsibility and no right of action shall arise against any of the authors, CDHIB, its directors or its employees either directly or indirectly out of any views, advice or information. The information presented are for information purposes only and does not constitute and should not be construed as investment advice or recommendation. The statistics have been obtained from third party data sources. We believe these sources to be reliable but cannot guarantee their accuracy or completeness. Recipients of this report shall be solely responsible for making their own independent appraisal and investigation into all matters herein.

<http://www.cdh-malawi.com>

## 1. Interbank market and interest rates

- 1.1 Liquidity condition were tighter in the first two months of the first quarter of 2018 compared to the three months of the last quarter of 2017. Excess reserves averaged K5.43b per day, decreasing from K6.23b in the Q4 of 2017. The overnight interbank rate decreased to a daily average of 15.04% from 16.50% in Q4 of 2017.
- 1.2 Overnight interbank borrowing decreased in January and February 2018 to a daily average of K7.57b from K8.62b in Q4 of 2017. Access on the Lombard Facility also decreased, averaging K6.28b per day compared to K12.75b in Q4 of 2017.
- 1.3 The RBM intensified mop up operations during the review period, withdrawing a total of K161.86b (daily average: K7.36b) from the market at an average rate of 14.99% through open market repurchase agreements (OMO), compared to K146.70b (K3.33b per day) at an average rate of 15.97% in Q4 of 2018.
- 1.4 The figure below provides a summary of excess reserves and overnight interbank rate movements from February 2016 to February 2018.

**Figure 1: Excess reserves and overnight interbank rate movement**



Source: Reserve Bank of Malawi

- 1.5 The Policy rate during the two months under review was steady at 16.00% after a downward revision from 18.00% in December 2017 that was triggered by the need to maintain a tight monetary policy to keep inflation on a downward trend. Low inflation in turn was expected to guarantee low interest rates and prolonged stability of the exchange rate. The Liquidity Reserve Requirement (LRR) was also steady at 7.50% in the review period.

Important disclaimer: The views expressed in this report are those of the authors and are based on information believed but not warranted to be correct. Any views or information, whilst given in good faith, are not necessarily the views of CDH Investment Bank Limited (CDHIB) and are given with an express disclaimer of responsibility and no right of action shall arise against any of the authors, CDHIB, its directors or its employees either directly or indirectly out of any views, advice or information. The information presented are for information purposes only and does not constitute and should not be construed as investment advice or recommendation. The statistics have been obtained from third party data sources. We believe these sources to be reliable but cannot guarantee their accuracy or completeness. Recipients of this report shall be solely responsible for making their own independent appraisal and investigation into all matters herein.

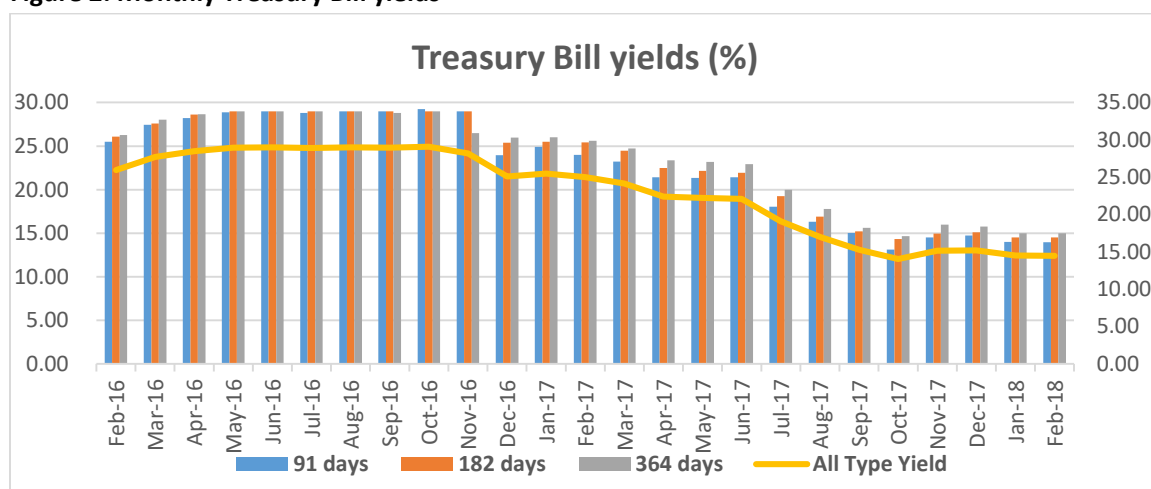
1.6 We expect the Policy rate to be maintained at 16.00% in the short term on account of ensuing inflationary pressures. In the medium to long term, especially towards the end of the second quarter and in the third quarter of 2018, the policy rate could be reduced as inflation pressures ease off.

## 2. Treasury Bills

2.1 During ordinary and tap Treasury Bill auctions held in the first two months of the first quarter of 2018, authorities raised K60.71b compared to K35.62b raised in the three months of the last quarter of 2017. Total applications stood at K62.41b, representing a rejection rate of 2.72%. This is compared to K60.75b that was applied in Q4 of 2017 (41.38% rejection rate).

2.2 Treasury Bill yields were relatively steady during the review period, with the all-type Treasury Bill yield slightly declining to an average of 14.49% from 14.79% recorded in Q4 of 2018.

**Figure 2: Monthly Treasury Bill yields**



Source: Reserve Bank of Malawi

2.3 Looking forward, Treasury bills yields are expected to remain broadly stable around the policy rate in the short term. In the medium to long term, if the authorities manage to contain ensuing inflationary pressures so that headline inflation remains relatively low, Treasury securities could face a downward pressure as the Government targets cheaper funds due to high debt levels.

## 3. Exchange rates

3.1 The Kwacha remained broadly stable against the USD in the period under review, but registered a depreciation of 5.75% against the ZAR, 3.31% against the GBP and 2.35% against the EUR, between 28<sup>th</sup> February 2018 and 29<sup>th</sup> December 2017. As at 28<sup>th</sup> February 2018, the RBM indicative middle rates

Important disclaimer: The views expressed in this report are those of the authors and are based on information believed but not warranted to be correct. Any views or information, whilst given in good faith, are not necessarily the views of CDH Investment Bank Limited (CDHIB) and are given with an express disclaimer of responsibility and no right of action shall arise against any of the authors, CDHIB, its directors or its employees either directly or indirectly out of any views, advice or information. The information presented are for information purposes only and does not constitute and should not be construed as investment advice or recommendation. The statistics have been obtained from third party data sources. We believe these sources to be reliable but cannot guarantee their accuracy or completeness. Recipients of this report shall be solely responsible for making their own independent appraisal and investigation into all matters herein.

were at USD/MWK725.6955, GBP/MWK1008.7893, EUR/MWK887.0902 and ZAR/MWK61.8582, compared to USD/MWK725.5840, GBP/MWK976.4909, EUR/MWK866.7101 and ZAR/MWK55.7064 as at 29<sup>th</sup> December 2018.

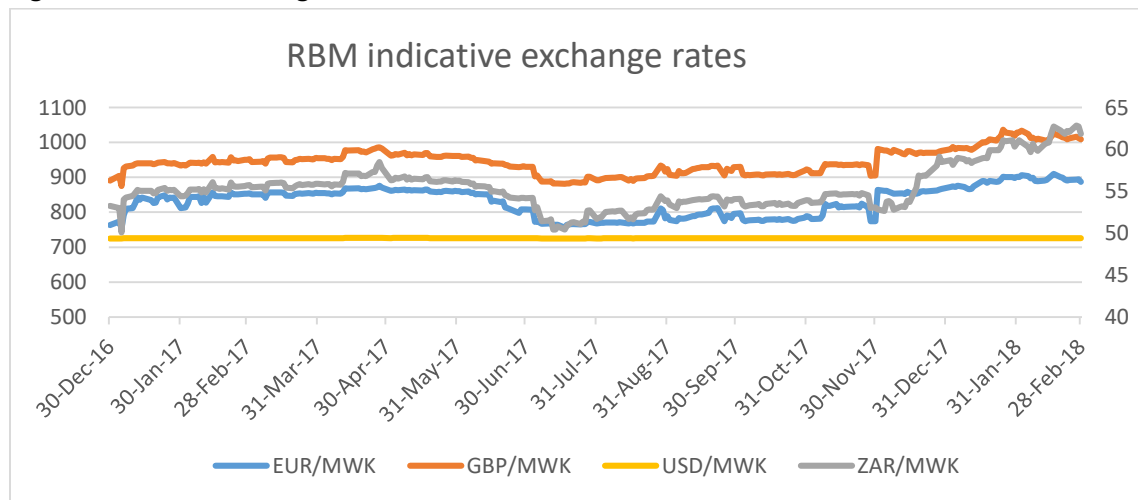
3.2 Year-to-date figures indicate that the Kwacha has marginally appreciated against the USD by 0.02% but has depreciated against the ZAR, GBP and EUR by 5.00%, 2.73% and 1.60%, respectively. The relative stability of the Kwacha has been mainly supported by favorable foreign exchange supply and efforts by the Reserve Bank to mop up excess liquidity from the system so as contain demand for foreign currency. The depreciation of the Kwacha against the ZAR was on account of strengthening of the Rand due to improved political and economic prospects for South Africa following the swearing in of a new president who is expected to bring economic reforms.

**Table 1: Kwacha exchange rate movement against major trading currencies**

Currency	28-Feb-18	29-Dec-17	28-Feb-17	Quarterly Change	YTD Change
USD	725.6955	725.5840	725.7561	▼ 0.02%	▲ -0.02%
GBP	1008.7893	976.4909	950.5242	▼ 3.31%	▼ 2.73%
EUR	887.0902	866.7101	853.0260	▼ 2.35%	▼ 1.60%
ZAR	61.8582	58.4941	55.7064	▼ 5.75%	▼ 5.00%

Source: Reserve Bank of Malawi

**Figure 3: Kwacha exchange rate movement**



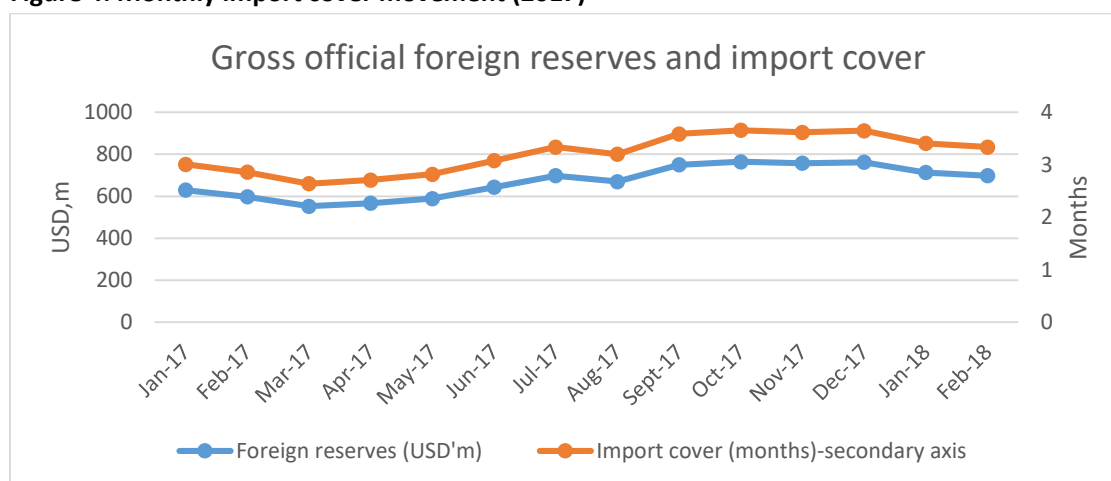
Source: Reserve Bank of Malawi

**Important disclaimer:** The views expressed in this report are those of the authors and are based on information believed but not warranted to be correct. Any views or information, whilst given in good faith, are not necessarily the views of CDH Investment Bank Limited (CDHIB) and are given with an express disclaimer of responsibility and no right of action shall arise against any of the authors, CDHIB, its directors or its employees either directly or indirectly out of any views, advice or information. The information presented are for information purposes only and does not constitute and should not be construed as investment advice or recommendation. The statistics have been obtained from third party data sources. We believe these sources to be reliable but cannot guarantee their accuracy or completeness. Recipients of this report shall be solely responsible for making their own independent appraisal and investigation into all matters herein.

3.3 The Kwacha is expected to remain broadly stable in the short to medium term backed by sufficient foreign exchange reserves. In the long term, the Kwacha could depreciate further due to current account imbalances emanating from the country's weak export base.

3.4 Gross official reserves were observed at USD698.51m (3.34 months of imports) on 23<sup>rd</sup> February 2018, 8.33% lower than USD761.97m (3.65 months of imports) observed at the end of December 2017. The pressure on foreign exchange reserves during the review period emanated from monetary authorities' efforts to keep the Kwacha stable. This pressure is expected to continue only in the short term. In the medium to long term, official reserves are expected to improve especially during the agricultural marketing season. The next IMF extended credit facility which is expected to be approved by the IMF board in April 2018 is also expected to encourage foreign exchange inflows from development partners. Foreign exchange reserves are, thus, expected to remain sufficient to buffer excessive volatility in the foreign exchange market in 2018.

**Figure 4: Monthly import cover movement (2017)**



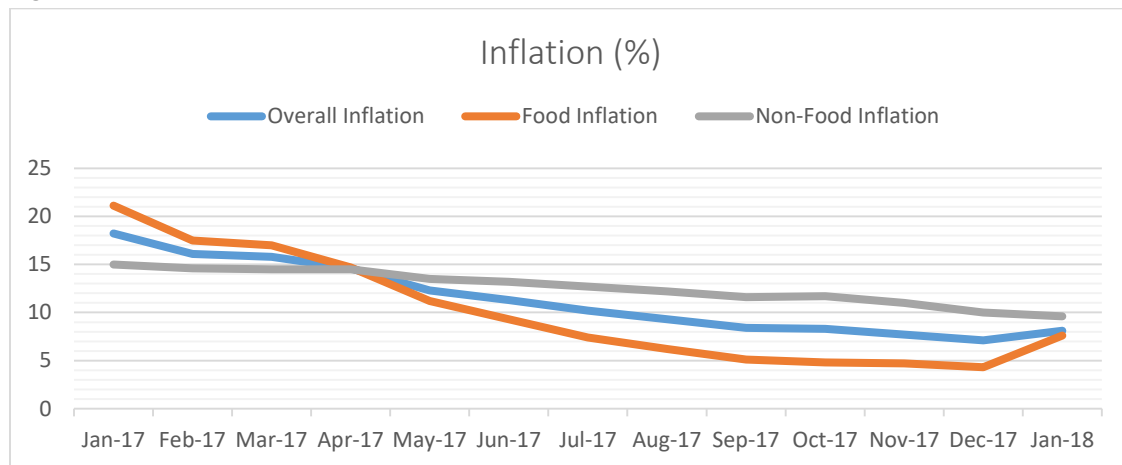
Source: Reserve Bank of Malawi

## 4. Inflation

4.1 Annual headline inflation stood at 8.10% in January 2018, up from 7.10% in December 2017. Annual headline inflation for the same period last year (January 2017) was 18.20%. The increase in inflation in January 2018, compared to December 2018, is largely attributed a rebound in prices of food, mainly maize. Annual food inflation rose to 7.60% in January 2018 from 4.30% in December 2017 while non-food inflation decreased to 9.60% from 10.00%. Annual food and non-food inflation for the same period last year (January 2017) was 21.10% and 15.00% respectively.

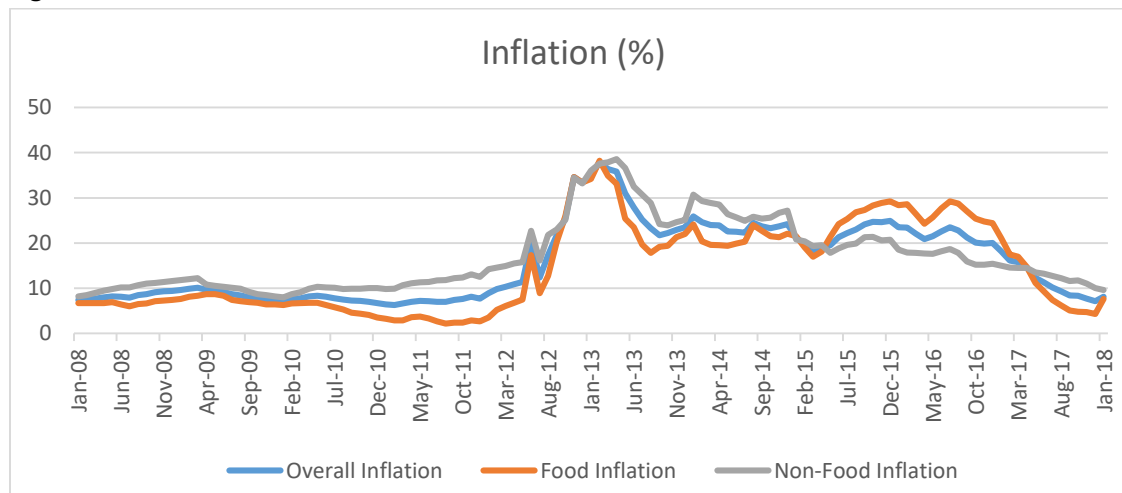
Important disclaimer: The views expressed in this report are those of the authors and are based on information believed but not warranted to be correct. Any views or information, whilst given in good faith, are not necessarily the views of CDH Investment Bank Limited (CDHIB) and are given with an express disclaimer of responsibility and no right of action shall arise against any of the authors, CDHIB, its directors or its employees either directly or indirectly out of any views, advice or information. The information presented are for information purposes only and does not constitute and should not be construed as investment advice or recommendation. The statistics have been obtained from third party data sources. We believe these sources to be reliable but cannot guarantee their accuracy or completeness. Recipients of this report shall be solely responsible for making their own independent appraisal and investigation into all matters herein.

**Figure 5a: Inflation rate movement (Jan 2017 to Jan 2018)**



Source: National Statistics Office (NSO)

**Figure 5b: Historical inflation rate**



Source: National Statistics Office (NSO)

4.2 The NSO announced that beginning January 2018 it would be releasing month-on-month inflation. Month-on-month headline inflation rate was at 4.5% in January 2018, with food inflation at 8.40% and non-food inflation at 1.40%. The NSO also announced the revision of weights in the inflation basket. The weight for food now stands at 45.20% from 50.20%.

4.3 Looking ahead, headline inflation is expected to inch upwards especially in the first few months of 2018 due to a rebound in food prices (maize) and an upward adjustment in utility tariffs. In the medium to long term, however, inflation may decline, supported by continued stability of the exchange rate should there be no significant unfavorable shocks to forex inflows in the country and as speculative

Important disclaimer: The views expressed in this report are those of the authors and are based on information believed but not warranted to be correct. Any views or information, whilst given in good faith, are not necessarily the views of CDH Investment Bank Limited (CDHIB) and are given with an express disclaimer of responsibility and no right of action shall arise against any of the authors, CDHIB, its directors or its employees either directly or indirectly out of any views, advice or information. The information presented are for information purposes only and does not constitute and should not be construed as investment advice or recommendation. The statistics have been obtained from third party data sources. We believe these sources to be reliable but cannot guarantee their accuracy or completeness. Recipients of this report shall be solely responsible for making their own independent appraisal and investigation into all matters herein.

attacks on food prices die down. Though this year's harvest is expected to drop on account of the fall army worm outbreak, sporadic dry spells and generally uneven distribution of rainfall, carryover stocks from the previous harvest season and abundant maize reserves in national silos are expected to cushion exorbitant food price increases. Thus, though inflationary pressures are expected to mount in 2018, headline inflation could remain generally low.

4.4 RBM expects inflationary pressures to remain relatively low in 2018, owing to sustained stability of the exchange rate. They project that inflation will average 10.50% in 2018 and end the year at 9.50%. In the medium term (three to five years) RBM targets an inflation rate of 5%. The Malawi Government and the NKC African Economics expect Malawi annual average inflation to remain in the single digit in the next five years as shown in the following table:

Table 2

	<b>Average annual inflation</b>						
	2016	2017	2018f	2019f	2020f	2021f	2022f
National Statistical Office (NSO)	21.70%	11.50%					
Reserve Bank of Malawi (RBM)			8.50%				
Malawi Government			5.60%	7.10%	7.70%	7.50%	7.70%
Economic Intelligence Unit		12.20%	11.80%	9.20%	8.00%	8.40%	8.70%
NKC African Economics	21.71%	11.60%	6.63%	6.39%	6.20%	6.07%	
<b>Average</b>	<b>21.71%</b>	<b>11.77%</b>	<b>8.13%</b>	<b>7.56%</b>	<b>7.30%</b>	<b>7.32%</b>	<b>8.20%</b>

## 5. Stock market and other corporate news

5.1 The Malawi Stock Exchange was generally bullish during the review period, with the MASI gaining 7.34%, driven by price gains on 7 counters. There was 1 loser while 5 counters registered no price movement.

Important disclaimer: The views expressed in this report are those of the authors and are based on information believed but not warranted to be correct. Any views or information, whilst given in good faith, are not necessarily the views of CDH Investment Bank Limited (CDHIB) and are given with an express disclaimer of responsibility and no right of action shall arise against any of the authors, CDHIB, its directors or its employees either directly or indirectly out of any views, advice or information. The information presented are for information purposes only and does not constitute and should not be construed as investment advice or recommendation. The statistics have been obtained from third party data sources. We believe these sources to be reliable but cannot guarantee their accuracy or completeness. Recipients of this report shall be solely responsible for making their own independent appraisal and investigation into all matters herein.

Table 3

Trading summary				
	28-Feb-18	29-Dec-17		Capital gain
<b>Market indices</b>				
MASI	23182.59	21598.07	↑	7.34%
DSI	17535.66	16272.64	↑	7.76%
FSI	3706.12	3519.43	↑	5.30%
<b>Gainers (price in K)</b>				
NICO	45.00	34.00	↑	32.35%
TNM	19.03	14.50	↑	31.24%
Sunbird	110.00	96.00	↑	14.58%
FMBCH	70.70	67.00	↑	5.52%
NBS	8.70	8.50	↑	2.35%
Old Mutual	1990.00	1960.00	↑	1.53%
MPICO	15.70	15.61	↑	0.58%
<b>Flat (price in K)</b>				
NITL	60.06	60.06	→	0.00%
ILLOVO	240.00	240.00	→	0.00%
BHL	28.00	28.00	→	0.00%
NBM	270.08	270.08	→	0.00%
PCL	600.00	600.00	→	0.00%
<b>Loser (price in K)</b>				
Standard Bank	609.99	610.00	↓	0.00%

Source: Malawi Stock Exchange (MSE)

5.2 On 8th January 2018, the MSE released an annual market performance review. According to the report, the stock market was buoyant in 2017 as it registered a positive return on investment of 62.14% compared to a negative return of 8.53% in 2016. The market registered a 70.09% increase in share volume traded to 698,894,283 shares compared to a traded volume of 410,895,390 shares in 2016. Traded share value amounted K13.52b in 2017, compared to K6.20b in 2016, representing a 118.14% increase. Top gainers for the year were FMB, TNM, NICO, MPICO and NITL, with registered share price gains of 182.35%, 139.67%, 100.00%, 99.36% and 76.65%, respectively.

5.3 A 2-year five billion Treasury note was listed on the Malawi Stock Exchange (MSE) on Monday, 26<sup>th</sup> February 2018. The TN has a coupon rate of 10.00% payable semi-annually and is currently trading at a bid price of 86.8287.

5.4 NBM Board of Directors declared a second interim dividend of K3.36 per share to be paid on 23rd March 2018 to shareholders who will be on the company's register by 2nd March 2018. This brings the total dividend per share paid so far for the year 2017 to K10.46.

**Important disclaimer:** The views expressed in this report are those of the authors and are based on information believed but not warranted to be correct. Any views or information, whilst given in good faith, are not necessarily the views of CDH Investment Bank Limited (CDHIB) and are given with an express disclaimer of responsibility and no right of action shall arise against any of the authors, CDHIB, its directors or its employees either directly or indirectly out of any views, advice or information. The information presented are for information purposes only and does not constitute and should not be construed as investment advice or recommendation. The statistics have been obtained from third party data sources. We believe these sources to be reliable but cannot guarantee their accuracy or completeness. Recipients of this report shall be solely responsible for making their own independent appraisal and investigation into all matters herein.



- 5.5 NICO released a trading statement informing the public of a revision of the company's expected profit after tax (PAT) for the year ending 31st December 2017 to more than 300% from more than 180% as earlier communicated. This means that the company's PAT will be at least K10.8b from K2.7b in 2017. The news is expected to excite trading in the counter on MSE.
- 5.6 Standard Bank reported a profit after tax of K12.16b for 2017 (2016: K19.43b). The 37% drop is largely attributed to a significant impairment provision of K6.2b. The directors recommend a final dividend of K4.26 per ordinary share (2016: K21.31) to be tabled at the forth coming Annual General Meeting.
- 5.7 Standard Bank Plc announced the appointment of Mr William le Roux as the new Chief Executive and Director of the board for the bank. The announcement from the bank said that Mr William le Roux has 38 years' experience in banking and has held progressively senior leadership positions in a number of African countries within the Group. He holds a Bachelor of Commerce, Accounting and Business Management from University of South Africa.
- 5.8 NBS announced the appointment of Mrs. Vera Zulu as Chief Finance Officer of the bank. Mrs. Zulu is a qualified accountant with 18 years' experience. She holds an MBA from University of Derby, a Bachelor of Accountancy degree from UNIMA and is a Fellow of the Association of Chartered Accountants (FCCA) and a Certified Public Accountant (CPA) with ICAM. Prior to joining NBS, Mrs. Zulu was CFO for Nedbank.

## 6. Economic growth

- 6.1 Growth prospects for 2018 are generally optimistic on the back of continued macroeconomic stability. The IMF, World Bank, and the EIU, project that real economic growth will reach 5.00%, 5.00% and 4.10%, respectively, in 2018 as shown in the table below:

**Table 4: Real economic growth projections**

	2015	2016	2017	2018	2019
EIU	2.90%	2.90%	4.40%	4.10%	4.80%
IMF	2.95%	2.30%	4.50%	5.00%	
World Bank	2.80%	2.50%	4.50%	5.00%	5.40%
Malawi Government	3.30%	2.70%	5.00%		

- 6.2 Risks to economic growth in 2018, however continue to heighten. Insufficient power supply coupled with increased utility tariffs could slow down economic growth by increasing the cost of production thereby reducing private sector activity and output. High government debt levels might keep interest

Important disclaimer: The views expressed in this report are those of the authors and are based on information believed but not warranted to be correct. Any views or information, whilst given in good faith, are not necessarily the views of CDH Investment Bank Limited (CDHIB) and are given with an express disclaimer of responsibility and no right of action shall arise against any of the authors, CDHIB, its directors or its employees either directly or indirectly out of any views, advice or information. The information presented are for information purposes only and does not constitute and should not be construed as investment advice or recommendation. The statistics have been obtained from third party data sources. We believe these sources to be reliable but cannot guarantee their accuracy or completeness. Recipients of this report shall be solely responsible for making their own independent appraisal and investigation into all matters herein.

rates high and crowd out private sector funding for growth. The fall armyworm outbreak and a dry spell that hit some parts of the country in January 2018 also threaten agricultural output in 2018.

## 7.0 Tobacco

7.1 In 2018 season, farmers could make better margins if they grow good tobacco as the gap between demand for the crop from international buyers and production quota has narrowed. The Tobacco Control Commission (TCC) indicated that the 2018 international buyer demand stands at 171 million kilograms against 162 million kilograms to be grown by 41,784 registered farmers. In 2017, the international buyer demand was 158 million kilograms against 106 million kilograms that were sold through the auction market. However, the dry spell that persisted in January 2018 in some parts of the country could affect the output. Tobacco auctions are expected to commence in April 2018.

### Charity Kamamkhudza Mhango

*Economic Analyst, Investment banking*

Email: [ckamamkhudza@cdh-malawi.com](mailto:ckamamkhudza@cdh-malawi.com)

Tel: +265 (0) 1 821 300; Fax: +265 (0) 1 822 826

---

Important disclaimer: The views expressed in this report are those of the authors and are based on information believed but not warranted to be correct. Any views or information, whilst given in good faith, are not necessarily the views of CDH Investment Bank Limited (CDHIB) and are given with an express disclaimer of responsibility and no right of action shall arise against any of the authors, CDHIB, its directors or its employees either directly or indirectly out of any views, advice or information. The information presented are for information purposes only and does not constitute and should not be construed as investment advice or recommendation. The statistics have been obtained from third party data sources. We believe these sources to be reliable but cannot guarantee their accuracy or completeness. Recipients of this report shall be solely responsible for making their own independent appraisal and investigation into all matters herein.