



NICO
Asset Managers

MAY 2017

MONTHLY ECONOMIC BRIEF

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Invest Today for Tomorrow

Inflation

Headline inflation for the month of April 2017 decreased to 14.60% from 15.80% in March 2017 (April 2016: 20.90%). This is due to the decrease in both food and non-food inflation. Food inflation declined to 14.70% from 17.00% in March 2017 while non-food inflation decreased to 14.40% from 14.50% in March 2017 (Source: NSO).

Government Securities

During the month of May 2017, the all type Treasury bill yield marginally decreased to 22.23% from 22.44% the previous month (May 2016: 27.67%).

Total Treasury bill applications for May 2017 stood at K28.34 billion, of which K13.52 billion was allotted resulting in a 52.30% rejection rate. The 364 days paper accounted for the highest subscription rate in May 2017 at 72.70%, followed by the 182 days paper at 23.31% and the 91 days paper at 3.99%.

There were Open Market Operations (OMO) conducted in the month under review. A total of K68.26 billion (May 2016: K32.37 billion) was allotted in OMO securities compared to K78.34 billion in April 2017 against maturities of K81.63 billion (Source: RBM).

Interbank Market and Interest Rates

Liquidity levels decreased in May 2017, averaging K3.46 billion per day from K3.87 billion per day in April 2017.

Access on the Lombard Facility (discount window borrowing) averaged K9.95 billion per day, increasing from K4.58 billion per day in April 2017 at an average rate of 24.00% for both months.

Overnight borrowing between banks decreased to an average of K4.99 billion per day in May 2017 from K5.26 billion per day in April 2017. Interbank interest rates averaged 21.50% in May 2017 decreasing from 21.60% in April 2017 (Source: RBM).

Foreign Currency Market

In the month of May 2017, the Malawi Kwacha marginally appreciated against the U.S Dollar and British Pound but depreciated against the Euro and South African Rand. As at 31 May 2017, the Kwacha was trading at:

- MK730.24:US\$1 (0.08% appreciation from the previous month)
- MK935.14:GBP1 (0.62% appreciation from the previous month)
- MK55.67:ZAR1 (1.09% depreciation from the previous month) and
- MK815.96:EUR1 (2.94% depreciation from the previous month).

Total forex reserves increased to US\$934.83 million (4.47 months worth of import cover) as at 31 May 2017 from US\$895.86 million (4.29 months worth of import cover) in April 2017 and US\$918.98 million (4.39 months of import cover) in May 2016.

Of the total reserves, US\$611.25 million (2.92 months of import cover) were gross official reserves and US\$323.58 million (1.55 months of import cover) were private sector reserves (Source: RBM).

Stock Market

The stock market was bullish in May 2017, with the Malawi All Share Index (MASI) increasing by 2.43% to settle at 15,573.68 points from 15,203.97 points the previous month.

The market gainers were NICO (20.80% increase), NITL (13.33% increase), TNM (9.76% increase), PCL (5.56% increase), Sunbird (4.92% increase), Standard Bank (0.91% increase), Old Mutual (0.71% increase) and Illovo (0.48% increase). The market loser was MPICO (6.98% decrease).

During the period, the Domestic Share Index (DSI) increased by 2.45% to 12,228.65 points from 11,935.73 points while the Foreign Share Index (FSI) increased by 0.71% to 2,325.21 points from 2,308.87 points. The year to date return for the MASI was 16.92% as compared to negative 12.01% the previous year.

Food Security Update (Source: FEWS NET)

For the 2017/18 consumption year, food security is expected to improve. However acute food shortages are anticipated in a few areas that experienced localized shocks. An average national staple production has been achieved during the cropping season and this has led to improved market supplies, bringing household food stocks back to normal levels.

Prices for maize across the country continued to register decreases, trading at an average of K170.96 per kg in April 2017 from K197.24 per kg in March 2017. The main drivers of the early price decline include the presence of humanitarian assistance up to March 2017 and the early access to green maize consumption.

Income is improving for households in the southern and central regions who are involved in harvesting activities and crop sales. However, the government is maintaining the maize export ban imposed last season and has put in place strict control measures. This could lead to lower income for farmers and maize traders who will be forced to only rely on the domestic market.

Government Raises K500 million for Fall Army Worms Fight (Source: Ministry of Agriculture, Irrigation and Water Development)

The Malawi Government has raised K500 million through development partners, to control fall army worms. Fall army worms are caterpillars which mainly attack maize crops. They are considered serious pests and if they are left to multiply, they can destroy entire crop fields. It is estimated that fall army worms attacked 140 000 hectares during the 2016/17 farming season and may continue destroying the winter crops.

According to the Ministry of Agriculture, Irrigation and Water Development, more development partners have assured government of assistance in mitigating the armyworms. Researchers are currently screening 40 pesticides that will be recommended to farmers to apply against the fall army worms.

So far these army worms have ravaged crops across more than 20 African countries. It has been estimated by the United Nations Food and Agriculture Organization that the crop could cause damage worth US\$3 billion during the 2017/18 season. It is hard to control an army worm invasion because they are fast breeders, strong flyers, can feed on a wide range of host plants and tend to develop a resistance to pesticides.

Tobacco Marketing Season Update (Source: TCC)

As at the end of the eighth week of the tobacco marketing season, a total of 45.90 million kilograms (2016: 44.59 million kilograms) were sold at an average price of US\$1.87 (2016: US\$1.41), resulting in a total value of US\$86.02 million (2016: US\$63.06 million).

Satemwa Tea Factory Launched (Source: STE)

On 22 May 2017, Satemwa Tea Estate with support from the Malawi Innovation Challenge Fund (MICF) have launched a special tea processing factory. This factory will produce high value specialty tea for the local, regional and international markets. The launch of the tea factory has been described as a milestone in the tea industry which will help the small holder farmers and the community. Other investments under this project include the establishment of naturally flavored tea using various natural herbs, setting up facility to process tea bags and the creation of the smallholder brand of tea called Yamba.

Farmers Union of Malawi Statement on Maize Export Ban (Source: Farmers Union of Malawi)

The Farmers Union of Malawi has observed with great concern the practice by government of imposing an export ban on maize. The ban was implemented to ensure that the country is self sufficient however it has brought economic injury and suffering to farmers.

The maize export ban has dampened maize farm gate prices with prices as low as K50/kg. And while government invests billions in agriculture through the subsidy program in order to benefit smallholder farmers, the export ban reduces expected benefits to Farm Input Subsidy Program targeted farmers which is a clear policy contradiction. Such that with these low farm gate prices, farmers will not be able to recover their costs and make a good profit margin.

Agriculture remains a key sector in eradicating poverty among the rural populace most of whom are farmers employed in the sector, such that any elements of mismanagement has a negative repercussion on people's lifeline. As a way forward, the Farmers Union of Malawi strongly recommends to government to open an export window for maize. Farmers Union of Malawi has information of maize prices in Eastern Africa ranging from 300-740 US Dollars per metric tonne which are competitive and could make good profit margins. This can ease pressure on the domestic market and allow demand for maize to pick up, which may push up maize prices to the benefit of producers.

2017/18 National Budget Statement Summary (Source: Ministry of Finance, Economic Planning and Development)

On 19 May 2017, the national budget was presented at the Malawi Parliament by the Minister of Finance, Goodall Gondwe. The national budget has been formulated within the backdrop of a rebounding economy.

Total expenditures have been projected at K1.29 trillion (26.1% of GDP). This comprises of recurrent expenditure of K946.6 billion (19.1% of GDP) and development expenditure at K348.8 billion (7.0% of GDP). The major projects being implemented under the 2017/18 fiscal year include: the Shire Valley Irrigation Project, construction of community hospitals and teachers training colleges, rehabilitation of the railway system and the commencement of the coal-fired power generation project which will add 300 megawatts to the national power grid.

Total revenue and grants has been proposed to increase by 13.3% to K1.11 trillion (22.3% of GDP). Domestic revenue is budgeted to increase by 16.9% to K980.3 billion while grants are projected to decline by 8.3% to K127.7 billion (2.6% of GDP). The budget deficit has been projected at 3.9% of GDP a decline from K4.1% of GDP. Net domestic borrowing is expected to be reduced from K63.6 billion (1.5% of GDP) to K27.5 billion (0.6% of GDP).

The 2017/18 budget is based on the assumption of the return in budgetary support from the European Union and the World Bank. Disbursement from the International Monetary Fund is also expected during the 2017/18 financial year. This will create a future debt obligation at high interest rates for government which will add pressure to the budget, requiring government to borrow more in order to pay back these obligations.

Revenue Performance Update (Source: MRA)

In the month of April 2017, tax revenue collection underperformed. Gross tax collection stood at K70.99 billion from a projection of K77.82 billion, representing a deficit of K6.82 billion or 8.77%. This was mainly as a result of corporate taxes, domestic VAT and PAYE which performed below their forecasted levels. Cumulatively, revenue for the fiscal year 2016/17 is currently at K634.82 billion which is above the forecasted collection target of K597.46 billion.

World Bank Helps Malawi Commercialize Agriculture (Source: World Bank)

The World Bank has approved a US\$95 million (K69 billion) credit to Malawi to boost the quantity and quality of various agricultural products for domestic and export markets.

The Agriculture Commercialization Project was approved on 23 May 2017 and is expected to support 70,000 farmers and 300 producer organizations. In order to create a conducive environment for farmers and agribusinesses to operate in, the project will support infrastructure such as feeder roads and electricity. The project will also support agro-business reforms and strengthen the warehouse receipt system in Malawi.

This project comes just a few weeks after the World Bank approved a credit of US\$80 million (K59 billion) in budgetary support to Malawi. In a joint press release with the Malawi government, the World Bank has stated that it will support Malawi in its development efforts mainly through provision of financing, knowledge and partnerships. The approved budget support is aimed at helping Malawi achieve its development goals through a program of policy and institutional actions or reforms.

Reserve Bank of Malawi Financial and Economic Review (Source: RBM)

The Reserve Bank of Malawi has released the financial and economic review for the fourth quarter of 2016. Total public debt stock dropped from K2.0 trillion at the end of the third quarter of 2016 to K1.8 trillion in the quarter under review. Of the total debt, US\$1.5 billion (K1.1 trillion) was external debt at 28.9% of GDP and domestic debt at K721 billion which is 19% of GDP.

The report has also shown that real GDP growth in 2016 is estimated at 2.7%. The sluggish growth is mainly due to the continued effects of weather-related shocks which adversely affected the agricultural sector. The positive growth in 2016 emanates from a few sectors that still made strides despite the economic challenges. These sectors include the financial and insurance sector, information and communication sectors, construction and the manufacturing sector. In 2017, real GDP growth is projected to reach 4.5% mainly due to improved weather conditions and macroeconomic stability.

The Kwacha has been relatively stable, with a marginal appreciation of 0.08% against the US Dollar in May 2017. The Kwacha is expected to appreciate during the tobacco marketing season as foreign currency becomes available. In the medium to long term, the Kwacha is expected to depreciate due to significant current account deficits, weak foreign direct investment inflows and low forex reserves.

Inflation is expected to remain subdued due to the continued slowdown in food prices. Food inflationary pressures are expected to be dampened during the main harvest season. The increase in food availability in the country could lead to lower food inflationary pressures. Non-food inflation may increase due to the possible rise in global oil prices.

Interest rates on the interbank market are dependent on the volatility of liquidity and are unlikely to be stable. Treasury bill yields are expected to remain around the Monetary Policy Rate level plus a premium. The Monetary Policy Rate is expected to be maintained at 22.00% in the short term. If inflationary pressures continue declining the Monetary Policy Rate is likely to be revised downwards which may lead to lower Treasury bill yields and base lending rates in the medium to long term. Commercial bank base lending rates have been revised to an average of 31% from an average of 34% in 2016.

Real economic growth for 2017 is projected at 4.20% by the World Bank and 4.5% by the IMF. The higher rate of growth could be driven by increased agricultural output in the 2016/2017 growing season. However, this recovery will be dependent on a sufficient agricultural output, a reduction in government borrowing if the national budget is sustained and prudent macroeconomic management to avoid further instability.

The government of Malawi has stated that the economy is recovering and may grow by at least 6% in 2017. This is due to the fairly stable currency depreciation, favourable weather patterns which may spur agricultural production and a downward trend in inflation.

KEY RISKS

High Government Debt Levels

High debt levels create a future obligation for government to repay its domestic and foreign debts plus interest. The domestic debt stock decreased to K720.50 billion in the fourth quarter of 2016 from K757.16 billion the previous quarter while foreign debt stood at US\$1.50 billion (K1.1 trillion) during the fourth quarter of 2016 from US\$1.70 billion (K1.2 trillion) the previous quarter. Long term debt results in higher levels of interest payments which increase government expenditure and the budget deficit. The depreciating currency will also result in higher interest payments for foreign loans.

Insufficient Power Supply

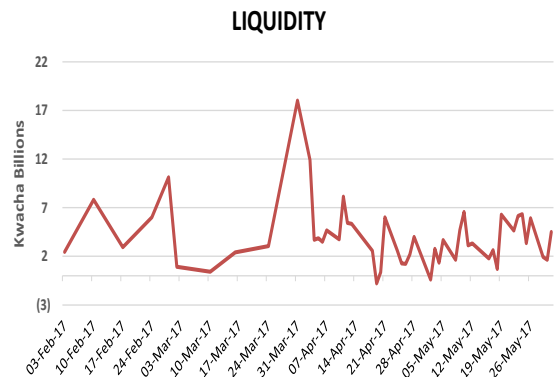
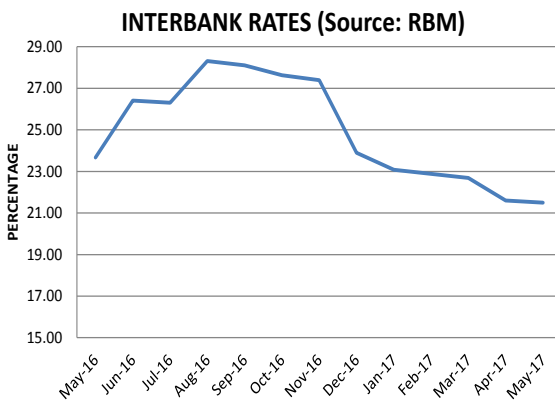
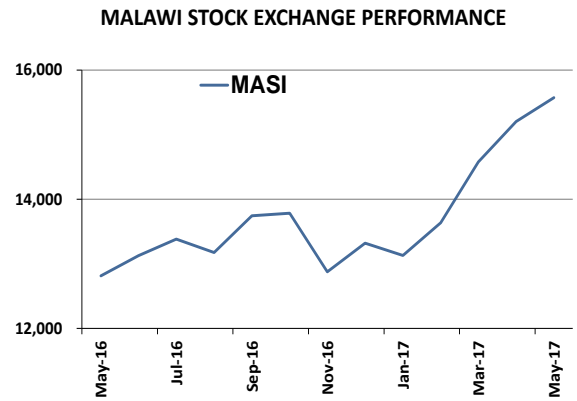
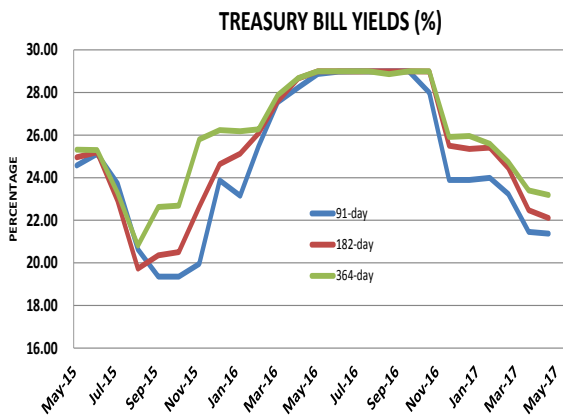
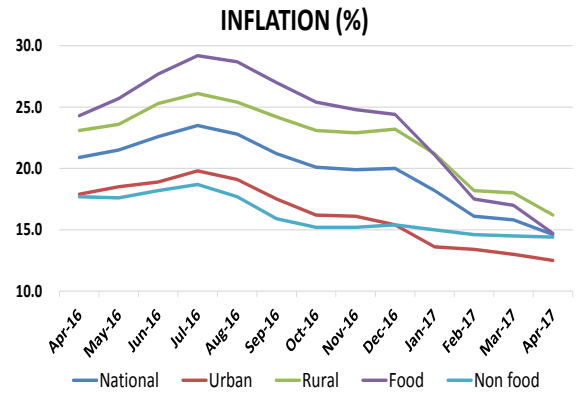
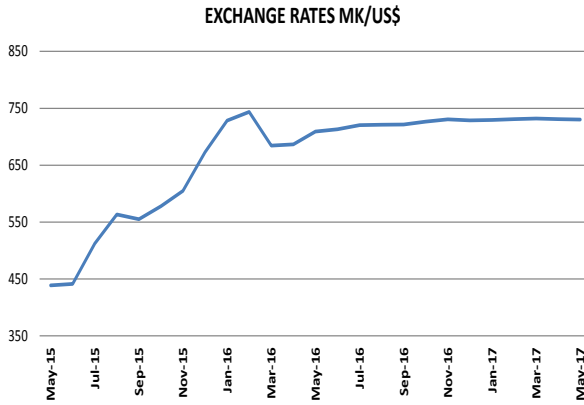
Insufficient power supply may hamper economic activity in the country. Power shortages may limit investment if alternative methods of power generation are not implemented.

Banking Sector Risk

High lending rates may deter private sector growth and capital investments. High lending rates may also lead to high default rates on loan facilities and lower private sector activity.

Persistent Weak Export Base

Malawi is characterised by a weak export base. This may affect the stability of the Kwacha against the major trading currencies. Low tobacco prices are likely to reduce the export value thereby maintaining the wide current account deficit leading to the depreciation of the Kwacha.



Disclaimer

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NICO ASSET MANAGERS LIMITED

COMPANY PROFILE

NICO Asset Managers Limited is a specialist investment management and advisory firm, providing a premier range of investment management, corporate finance, infrastructure development and investor services to institutional and individual investors.

We are registered with the Reserve Bank of Malawi as a Portfolio/Investment Manager, Investment Advisor and Transfer Secretary. We are a wholly owned subsidiary of NICO Holdings Limited.

Vision

“To be the preferred investment management and advisory services provider”

Mission Statement

“To provide high quality investment products and services that will create value to all stakeholders”

Our services

Investment/Fund Management



- Pension fund management- Segregated Funds
- Pension fund management- Pooled Funds
- Institutional Fund management
- Trust fund management
- NICO Nominees - Fixed Deposit
- NICO Nominees - Invest Plus

Corporate Finance



- Capital raising
- Feasibility studies
- Company valuation
- Mergers and Acquisitions
- Company set up

Investor Services



- Transfer Secretarial Services
- Economic Research
- Company Secretarial Services

Infrastructure Development



- Property development
- Project Management
- Property Management/ Monitoring
- Property advisory and transaction services

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