

## MONTHLY ECONOMIC BRIEF

A smart commentary for the Malawi economy

APRIL 2016



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### HIGHLIGHTS

- ✓ *The President has declared a state of national disaster as about 2.8m people have been rendered food insecure.*
- ✓ *Malawi Stock Exchange is under pressure to list more companies as Britam Insurance delists from the bourse*
- ✓ *Protests mar the beginning of the tobacco marketing season as farmers protest against low prices and high rejection rates.*
- ✓ *Inflation eased to 22.1% in March 2016 from 24.3% in February 2016 owing to increased food supply.*

#### Food inflation likely to rise again

The 2015/06 growing season which was mainly characterized by prolonged drought and erratic rains is estimated to produce 2,431,313 metric tonnes which is about 76% of the 3,205,135 metric tonnes required for human consumption, seed, stock feed and industrial use for the country. Meanwhile, the Head of State has declared a state of national disaster as about 2.8 million people have been rendered food insecure. In the wake of such a gap in food supply, we expect inflation to skyrocket again driven by rising food prices during the 2016 / 2017 lean period of the season.

#### Another punch on the MSE

The Malawi Stock Exchange has lost yet another counter during the month under review following the High Court's approval for Britam Insurance Company to delist from the bourse. The company has since bought out all of the minority shares. It intends to restructure its capital in an attempt to meet the new capital requirement for general insurers of MWK750m which was initially pegged at MWK50m. The delisting of Britam means that MSE is now left with only thirteen (13) counters, a development that has put pressure on the local bourse to motivate for new listings. Britam Insurance is a second company to delist from the MSE following Packaging Industries Limited (PIM) which delisted in 2011.

#### Tobacco marketing season launches on a low note

Tobacco marketing season has been officially launched during the month with lower prices and volumes experienced on both contract and auction sales compared to the same period of the last season. By the end of the second week, total sales in volume registered a 55% decline from 8.66mn in 2015 to 3.91 mn in 2016 owing to protests and violence that marred the tobacco market as farmers protested low prices and high rejection rates. While the same period in 2015 season registered only 23% of burley sales on auction, up to 41% of burley sales this season are on the auction floors

The average price during the first two weeks of 2016 have been recorded at 111.02 cents compared to 140.78 cents recorded during the first two weeks of 2015 marketing season which represents a 21% decline. However, prices on auction tobacco remain lower than those of contract tobacco as buyers prioritize contracted leaf. This is because their international customers are demanding compliance to environmental friendly agricultural practices which include afforestation and no child labour which they say can only be achieved through contracted tobacco farming.

#### Inflation closed the first quarter at 22.1%

Of late, food prices particularly maize prices have been going down due to the onset of the harvesting season. As a result, inflation has declined from 24.3% in Feb 2016 to 22.1% in March 2016 whose driver has been the food component which declined from 28.6% in February to 26.5 % in March 2016. We expect inflation to decelerate further in the third quarter of 2016 but will thereafter likely start to increase as the EL NINO driven food crisis materialises but much will depend on the response to the food crisis.

## A glance at the Malawi Stock Exchange

Three counters registered price gains during the month but the gains were not enough to offset the losses suffered on five other counters resulting in a 4.21 percent decline of the Domestic Share Index (DSI) from 10,554.05 points to 10,109.50 points and corresponding 4.16 percent drop in the Malawi All Share Index (MASI) from 3,419.95 to 4,2861.07. The other five counters did not register any price movements during the month. The price gainers during the month were BHL, FMB and SUN. Illovo, MPICO, NBS, NICO and NITL were on the price losing side. The table below summarises the price movements during the month.

Counter	29-Apr-16	31-Mar-16	% Δ Mt
MASI	12861.07	13419.95	▼ -4.1645
DSI	10109.50	10554.04	▼ -4.2120
FSI	1762.13	1762.13	0.0000
BHL	12.90	9.80	▲ 31.6327
FMB	10.00	9.60	▲ 4.1667
ILV	171.38	200.00	▼ -14.3100
MPICO	6.00	7.80	▼ -23.0769
NBM	258.00	258.00	0.0000
NBS	15.00	18.00	▼ -16.6667
NICO	23.50	24.00	▼ -2.0833
NITL	46.00	50.00	▼ -8.0000
PCL	535.00	535.00	0.0000
SBM	440.00	440.00	0.0000
SUN	32.00	30.00	▲ 6.6667
TNM	5.00	5.00	0.0000
OML	1402.00	1402.00	0.0000

source: MSE

## Global economic developments

Global economic growth is projected at 3.2 percent for 2016 from 3.1 percent in 2015. The global activity is expected to be driven by relatively stronger growth in emerging and developing economies. International oil prices are projected to gradually edge up but still remain low in 2016. As at 19th April 2016, international crude oil prices averaged US\$35.75 per barrel. (Source: RBM)

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## Foreign Exchange Rate Developments

The Kwacha depreciated against currencies of our the major trading partners during the month. The table below highlights the movement of exchange rates during the month under review.

FOREX Movement	29-Apr-16	31-Mar-16	Change
USD/MWK	686.70	682.42	▼ 0.63%
GBP/MWK	1,006.20	978.79	▼ 2.80%
EUR/MWK	782.39	772.07	▼ 1.34%
JPY/MWK	6.58	6.28	▼ 4.78%
ZAR/MWK	48.21	45.75	▼ 5.38%

## Foreign Currency reserves movements

Gross official reserves increased by 0.59% during the month from US\$630.51 million as at 31 March 2016 to US\$634.20 million as at 29 April 2016, resulting in an increase in import cover from 3.02 months to 3.03 months. Private sector reserves on the other hand declined by 1.44% from US\$278.44 million to US\$ 274.43 million resulting in a drop in public sector import cover from 1.33 months to 1.31 months. (Source: RBM)

Foreign currency Reserves (US\$ ml)	29-Apr	31-Mar	% Mt
Official	634.20	630.51	0.59
Import Cover (mts)	3.03	3.02	0.33
Private Sector	274.43	278.44	-1.44
Import Cover (mts)	1.31	1.33	-1.50

## Interest Rates

Average yield on the 91 days T-Bills, the 182 days T-Bills and the 364 days T-Bills increased by 2.92 percent, 3.44 percent and 1.84 percent from 27.6910% to 28.4993%, 28.0357% to 29.0000% and 28.4608% to 28.9850% respectively.

KEY RATES	29-Apr-16	31-Mar-16	Change
91 days TB	28.4993	27.6910	2.92%
182 days TB	29.0000	28.0357	3.44%
365 days TB	28.9850	28.4608	1.84%