



**NICO**  
Asset Managers

# DECEMBER 2017

## MONTHLY ECONOMIC BRIEF

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**Invest Today** for Tomorrow

BHL:	Blantyre Hotels Plc
CPI:	Consumer Price Index
DSI:	Domestic Share Index
ECF:	Extended Credit Facility
EIU:	Economist Intelligence Unit
ESCOM:	Electricity Supply Corporation of Malawi
EUR:	Euro
FEWS NET:	Famine Early Warning Systems Network
FISP:	Farm Input Subsidy Program
FMB:	First Merchant Bank Plc
FOB:	Free on Board
FSI:	Foreign Share Index
GBP:	British Pound
GDP:	Gross Domestic Product
ILLOVO:	Illovo Sugar Malawi Plc
IMF:	International Monetary Fund
MASI:	Malawi All Share Index
MASL:	Meters Above Sea Level
MERA	Malawi Energy Regulatory Authority
MK:	Malawi Kwacha
MPC:	Monetary Policy Committee
MPICO:	Malawi Property Investment Company Plc
MSE:	Malawi Stock Exchange
MT:	Metric Tonnes
MRA:	Malawi Revenue Authority
NBM:	National Bank of Malawi Plc
NBS:	NBS Bank Plc
NICO:	NICO Holdings Plc
NITL:	National Investment Trust Plc
NPL:	National Publications Limited
NSO:	National Statistical Office
OMO:	Open Market Operations
OPEC:	Organization of the Petroleum Exporting Countries
PCL:	Press Corporation Plc
RBM:	Reserve Bank of Malawi
SDF:	Southern Dark Fired Tobacco
Sunbird:	Sunbird Tourism Plc
TB:	Treasury Bills
TCC:	Tobacco Control Commission
TNM:	Telekom Networks Malawi Plc
UK:	United Kingdom
US:	United States of America
US\$:	United States Dollar
ZAR:	South African Rand

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### **Inflation (Source: NSO)**

Headline inflation for the month of November 2017 decreased to 7.70% from 8.30% in October 2017 (November 2016: 19.90%). This was due to the decrease in food inflation to 4.70% from 4.80% in October 2017, and non-food inflation to 11.00% from 11.70% for the same period. The average inflation rate for December 2016 to November 2017 is recorded at 12.7%, declining from the average inflation rate of 22.2% recorded over the same period previous year (December 2015 to November 2016).

### **Government Securities (Source: RBM)**

During the month of December 2017, the all-type Treasury bill yield increased marginally to 15.20% from 15.12% the previous month (December 2016: 25.10%).

Total Treasury bill applications for December 2017 stood at K14.80 billion and K13.92 billion was allotted representing a 5.83% rejection rate. The 364 days paper accounted for the highest subscription rate at 75.35%, followed by the 91 days paper at 14.74% and the 182 days paper at 9.92%. On average, the yield for the 91 days paper decreased to 18.92% in 2017 from 27.51% in 2016, while the yields for 184 days and 364 days papers decreased to 19.78% and 20.47% in 2017 from 27.99% and 28.15% in 2016.

There were Open Market Operations (OMO) conducted in December 2017. A total of K108.56 billion was allotted in OMO securities, compared to K39.50 billion which was allotted in November 2017 and K53.70 billion in December 2016.

### **Interbank Market and Interest Rates (Source: RBM)**

Liquidity levels decreased in December 2017, averaging K6.43 billion per day from K6.90 billion per day in November 2017. Access on the Lombard Facility (discount window borrowing) averaged K5.51 billion per day at an average rate of 19.58% decreasing from K15.62 billion per day in November 2017 at an average rate of 20%.

Overnight borrowing between banks increased to an average of K9.83 billion per day in December 2017 at an average rate of 15.89% from K8.97 billion per day in November 2017 at an average rate of 16.61%.

### **Foreign Currency Market (Source: RBM)**

In the month of December 2017, the Malawi Kwacha appreciated marginally against the U.S dollar, but depreciated against the other major currencies. As at 29 December 2017, the Kwacha was trading at:

- MK732.03:US\$1 (0.03% marginal appreciation from the previous month)
- MK979.53:GBP1 (0.25% depreciation from the previous month)
- MK59.04:ZAR1 (10.69% depreciation from the previous month) and
- MK869.07:EUR1 (1.00% depreciation from the previous month).

In 2017, the Malawi Kwacha depreciated against all the major trading currencies but was relatively stable against the U.S Dollar since August 2016. The Kwacha traded at an average rate of K730.93:US\$1 in 2017. The Kwacha stability was driven by the subdued demand for foreign currency and the continued inflow of foreign exchange reserves, which were adequate to cushion the foreign exchange market and guard against the Kwacha volatility.

Total forex reserves increased to US\$1,176.00 million (5.63 months worth of import cover) as at 28 December 2017 from US\$1,133.50 million (5.42 months worth of import cover) in November 2017 and US\$943.57 million (4.51 months of import cover) in December 2016.

Of the total reserves, US\$761.97 million (3.65 months of import cover) were gross official reserves and US\$414.03 million (1.98 months of import cover) were private reserves. Of the US\$943.57 million total reserves in December 2016, US\$606.96 million (2.90 months of import cover) were gross official reserves and US\$336.61 million (1.61 months of import cover) were private reserves

**ECONOMIC OVERVIEW FOR THE MONTH  
(Continued...)**

**Stock Market (Source: MSE)**

The stock market was bullish in December 2017, with the Malawi All Share Index (MASI) increasing by 2.25% to settle at 21,598.07 points from 21,122.43 points the previous month.

The market gainers were NBS (21.43% increase), TNM (11.54% increase), OML (1.55% increase) and National Bank (0.03% increase). There were no share price losses during the month under review.

During the month, the Domestic Share Index (DSI) increased by 2.67% to 16,272.64 points from 15,850.21 points while the Foreign Share Index (FSI) increased by 0.08% to 3,519.43 points from 3,516.49 points. The return for 2017 for the MASI was 62.14% as compared to negative 8.53% in 2016.

**LOCAL MARKET  
DEVELOPMENTS**

**Food Security Update (Source: FEWS.NET, FAO)**

Malawi has registered an average start of agricultural season in line with the international and local forecasts. In most parts of the country, rainfall has been normal tending towards above average. For the last days of November and first days of December, most parts of Malawi have so far received above normal rainfall from 50mm to 200mm with the exception of Lower Shire in Southern Malawi which registered some rainfall deficits.

Average retail prices for maize registered a typical decline in November 2017 of 6%. This price decrease comes at a time when the market demand typically increases as the lean season begins across the country. However, a slightly above average production in 2016/17 and exceptionally high levels of maize imports have led to high levels of maize availability.

Maize output is estimated at 3.5 million tons (against the national requirement of 3.2 million tons), 46% up on yearly basis compared to the drought-reduced 2016 output of about 2.4 million tons. This brings a total surplus of about 300,000 metric tons in 2016/17 season compared to a deficit of 783,822 metric tons in 2015/16 season.

**Revision of the Policy Rate and Base lending Rates (Source: RBM, Standard Bank, NBM, FMB, CDHIB, NedBank, NBS)**

The MPC reduced the policy rate to 16% from 18% and maintained the Liquidity Reserve Requirement at 7.5%. at the MPC meeting held on 19 to 20 December 2017. The adjustment was attributed to disinflation effects that the country has experienced, the inflation outlook as well as the desire to consolidate the gains made in stabilizing the economy. The money supply has been contained at an average rate of 17.9% during the first eleven months of the year, with inflation recorded at 7.7% in November 2017.

Following this development, some commercial banks have revised their base lending rates downwards to an average rate of 25.41% from 27.55%. Some banks have also revised their rates on deposits as well as fees and commissions on various facilities.

### **Fuel Price and Electricity Tariff Update (Source: MERA)**

In December 2017, MERA assessed the combined effect of the movement of the FOB prices and exchange rate of Malawi to the US Dollar, and local factors that determine the maximum pump prices.. It was noted that the landed cost of petrol, diesel and paraffin increased by 15.35%, 23.51% and 23.28% respectively. These changes qualified all the three petroleum products for an upward pump price adjustment. However, the board resolved to maintain pump prices for all three products at K824.70/litre, K815.80/litre and K648.70/litre respectively, and apply the accumulated funds in the Price Stabilisation Fund (PSF) to cover the increased landed cost of the three products. These fuel prices have been maintained since November 2016.

On a similar note, in November 2017, MERA resolved to maintain electricity tariffs at the current average of K55.72/kWh. This came after the board considered the backlog on the implementation of the fourth tranche of the second base tariff for the 2017/18 and the ESCOM's revenue loss emanating from the delay in implementing this tranche.

### **Trading Statements of Some Listed Companies (Source: TNM plc, Sunbird Tourism plc, Standard Bank plc, MPICO plc, NITL plc, NBS Bank plc, NICO Holdings plc)**

Some listed companies have released their trading statements regarding their expected performance for the year ending 31 December 2017 as follows:

- TNM plc expects profit after tax to be more than 60% higher.
- Sunbird Tourism plc expects profit after tax to be more than 70% higher.
- Standard Bank plc expects profit after tax to be 30% below.
- MPICO plc expects profit after tax to be more than 100% higher.
- NITL plc expects profit after tax to be more than 100% higher.
- NBS Bank plc expects a loss of at least 70% lower than the previous corresponding period.
- NICO Holdings plc expects profit after tax to be more than 180% higher.

### **FMB Capital Holdings (FMBCH) Limited Listed on the Malawi Stock Exchange (MSE) (Source: MSE)**

First Merchant Bank (FMB) announced its withdrawal from the official list of the MSE following the 100% acquisition of its issued share capital by FMBCH plc effective 19 December 2017. As such, FMB shares are no longer traded or quoted on the MSE. FMBCH was officially listed on MSE on 18 September 2017 at a share price of K45.01.

### **Amalgamation and Merger of the Leasing and Finance Company of Malawi (LFC) with First Merchant Bank (FMB)**

On 20 December 2017, the High Court of Malawi approved the Scheme of Arrangement whereby FMB will acquire, assume, amalgamate and merge with its own undertaking and all property, assets, and rights, real and personal, liabilities (actual and contingent) and obligations of every description of LFC. The effective date for the scheme is 31 December 2017.

Under this new arrangement, existing clients of LFC will continue to be serviced from the existing LFC premises, the terms of existing deposits will not be varied, but only on new deposits, and borrowers with variable rate loans or finance leases will see a reduction in interest rates applicable on their facilities in line with the reduction in the FMB base rate effective 2 January 2018.

### **Malawi Declares 20 Districts Disaster Areas After Army Worm Outbreak (Source: Reuters)**

Malawi has declared 20 districts disaster areas after infestations of fall armyworm threatened food security. The pest whose infestation has erupted across Africa, has broken out in 20 out of 28 districts affecting thousands of hectares of farmlands. The country has also been hit by flooding in some areas that has claimed lives of some people.

The government has rolled out pesticides and intensified training and awareness campaigns to contain the infestation's spread, which has primarily affected maize, sorghum and millet crops.

The Kwacha has been relatively stable, with a marginal appreciation of 0.03% against the US Dollar in December 2017 from the previous month. This outcome is against the traditional trend where the Kwacha depreciates during the lean season due to increased pressure on foreign exchange for importation of farm inputs. The Kwacha is expected to remain stable in the short-term due to continued inflow of foreign exchange reserves, which are adequate to cushion the foreign exchange market and guard against the Kwacha volatility.

Inflation has remained subdued, recorded at 7.7% in November (October 2017:8.3%), due to the continued slowdown in food prices. As the farming season commences, a potential decrease in food availability during this lean period is less likely as the country has enough maize stocks. Due to this, it has been noted that the average retail prices for maize declined by 6% in November 2017, and this price decrease comes at a time when the market demand increases (Source: Fewsnets). As such, in the short term, food inflationary pressures are less likely to occur. Non-food inflation may increase due to the possible rise in global oil prices if the global cut in oil production succeeds, and if the rising tensions in the Middle East persist. Other factors include the demand for wage increases, housing cost increases, and high costs of production arising from power outages which has forced firms to opt for more expensive power generation alternatives.

The Monetary Policy rate has been reduced to 16% from 18.00%. The policy rate is expected to be maintained in the short term as pressure on the exchange rate gradually increases during the lean and growing seasons due to increased demand for forex. However, conditional on further improvements in inflation rate, the monetary policy rate is expected to be revised downwards. 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 slightly below the Monetary Policy Rate level. Commercial bank base lending rates are currently at an average of 27% from an average of 34% in 2016. In 2018, however, the base lending rates may decline if the policy rate will be reduced further below the current rate of 16%.

Real economic growth is projected at 4.40% in 2017 and 4.50% in 2018 by the World Bank and the IMF projects 4.50% for 2017 and 5.00% for 2018. The higher rate of growth could be driven by increased agricultural output. However, this recovery will be dependent on a sufficient agricultural output and power supply, a reduction in government borrowing if the national budget is sustained and prudent macroeconomic management to avoid further instability. The EIU revised the country's economic growth rate downwards to 4.1% in 2018 from 4.4% in 2017. This downward revision emanates from the likely reduction in maize output this season, expected slow growth in tobacco production, and the industrial sector which is unlikely to emerge as the key driver of growth due to stiff competition on the international market

The government of Malawi has stated that the economy is recovering and may grow by at least 6.10% 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.

### **Insufficient Power Supply**

Insufficient power supply may hamper economic activity in the country. Power shortages may also limit investment if alternative methods of power generation are not implemented. Resorting to more expensive sources of power may result in increased production costs, thereby exerting more pressure on non-food inflation.

### **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 stood at K846.10 billion as at the end of the second quarter of 2017 while foreign debt stood at US\$1.86 billion (K1.35 trillion). 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.

### **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.

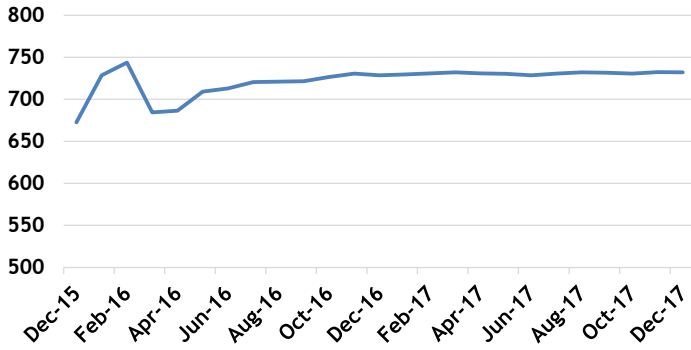
### **High Population Growth**

High population growth rate has a negative impact on average per capita income. As such, improved economic growth does not translate into real sector growth. Furthermore, the resources that the country could have allocated to more productive activities are used to take care of the growing population.

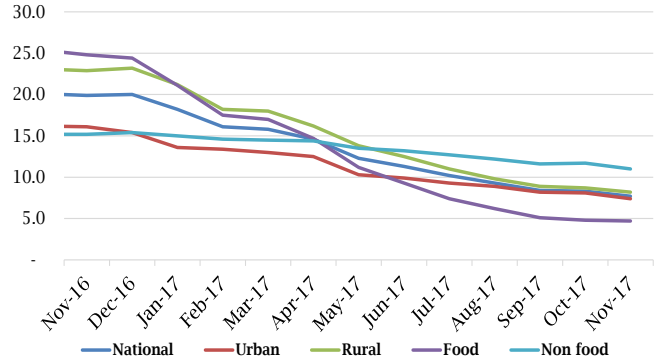


	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	IM-O-M movement	Y-O-Y movement
<b>Exchange rates (Source: RBM)</b>															
MK: US\$	728.62	729.60	730.83	732.00	730.86	730.24	728.51	730.55	732.11	731.63	730.58	732.25	732.03	0.03%	-0.47%
MK: GBP	893.83	914.66	906.93	904.75	941.01	935.14	948.08	957.66	943.99	977.49	959.06	977.13	979.53	-0.25%	-9.55%
MK: ZAR	52.81	53.94	56.21	53.69	55.07	55.67	55.91	56.11	56.10	53.85	51.90	53.34	59.04	-10.70%	-11.80%
MK: EUR	766.03	779.61	771.39	778.14	792.67	815.96	831.47	868.44	861.65	860.14	850.46	860.43	869.07	-1.00%	-13.45%
<b>Forex reserves (Source: RBM)</b>															
Gross Official Reserves (US\$mn)	606.96	619.93	599.26	552.85	552.91	611.25	678.70	693.43	655.08	750.23	764.42	757.40	757.08	-0.04%	24.73%
Private Sector Reserves (US\$mn)	336.60	328.45	334.61	333.01	342.95	323.58	356.40	350.91	372.25	346.46	338.08	376.55	412.98	9.67%	22.69%
Total Reserves (US\$mn)	943.56	948.38	933.87	885.86	895.86	934.83	1,035.10	1,044.34	1,027.33	1,096.69	1,102.50	1,133.95	1,170.06	3.18%	24.00%
Total Import Cover (months)	4.51	4.53	4.47	4.21	4.29	4.47	4.96	5.00	4.91	5.25	5.28	5.42	5.60	3.32%	24.17%
<b>Inflation (Source: NSO)</b>															
Headline Inflation	20.00%	18.20%	16.10%	15.80%	14.60%	12.30%	11.30%	10.20%	9.30%	8.40%	8.30%	7.70%	N/A	-0.60%	-12.20%
Food	24.40%	21.10%	17.50%	17.00%	14.70%	11.20%	9.30%	7.40%	6.20%	5.10%	4.80%	4.70%	N/A	-0.10%	-20.10%
Non-Food	15.40%	15.00%	14.60%	14.50%	14.40%	13.50%	13.20%	12.70%	12.20%	11.60%	11.70%	11.00%	N/A	-0.70%	-4.20%
Urban	15.40%	13.60%	13.40%	13.00%	12.50%	10.30%	9.90%	9.30%	8.90%	8.20%	8.10%	7.40%	N/A	-0.70%	-8.70%
Rural	23.20%	21.20%	18.20%	18.00%	16.20%	13.80%	12.50%	11.00%	9.80%	8.90%	8.70%	8.20%	N/A	-0.50%	-14.70%
<b>Interbank Rates (Source: RBM)</b>															
Monetary Policy Rate	24.00%	24.00%	24.00%	22.00%	22.00%	22.00%	22.00%	18.00%	18.00%	18.00%	18.00%	18.00%	16.00%	-2.00%	-8.00%
Average Interbank Rate	23.90%	23.08%	22.88%	22.69%	21.60%	21.50%	21.42%	18.72%	16.70%	16.02%	16.80%	16.61%	15.89%	-0.72%	-8.01%
Average Base Lending Rates	33.73%	33.73%	33.73%	31.64%	31.64%	31.64%	31.64%	27.77%	27.55%	27.55%	27.55%	27.55%	27.55%	0.00%	-6.18%
<b>Treasury Bill Yields (Source: RBM)</b>															
91 day Treasury Bill yield	23.89%	23.89%	23.99%	23.23%	21.45%	21.37%	21.42%	18.03%	16.21%	15.03%	13.18%	14.52%	14.73%	0.21%	-9.16%
182 day Treasury Bill yield	25.50%	25.35%	25.41%	24.45%	22.47%	22.11%	21.94%	19.25%	16.91%	15.21%	14.28%	14.88%	15.10%	0.22%	-10.40%
364 day Treasury Bill yield	25.91%	25.96%	25.59%	24.73%	23.40%	23.19%	22.92%	20.00%	17.80%	15.63%	14.64%	15.97%	15.77%	-0.20%	-10.14%
<b>Stock Market Indices (Point) (Source: MSE)</b>															
MA51	13,320.51	13,127.73	13,635.67	14,577.62	15,203.97	15,573.68	15,772.51	16,877.16	20,049.44	19,920.42	20,049.06	21,122.43	21,598.07	2.25%	62.14%
DSI	10,466.92	10,303.61	10,707.55	11,437.62	11,995.73	12,228.65	12,366.77	13,265.14	15,780.73	15,687.31	15,780.94	15,850.21	16,272.94	2.67%	55.62%
FSI	2,026.07	2,026.07	2,026.07	2,308.87	2,308.87	2,325.21	2,325.21	2,325.21	2,425.75	2,425.75	2,474.85	3,516.49	3,519.43	0.08%	73.71%
<b>Fuel Prices per Litre (Source: MERA)</b>															
Petrol	824.70	824.70	824.70	824.70	824.70	824.70	824.70	824.70	824.70	824.70	824.70	824.70	824.70	0.00%	0.00%
Diesel	815.80	815.80	815.80	815.80	815.80	815.80	815.80	815.80	815.80	815.80	815.80	815.80	815.80	0.00%	0.00%
Paraffin	648.70	648.70	648.70	648.70	648.70	648.70	648.70	648.70	648.70	648.70	648.70	648.70	648.70	0.00%	0.00%

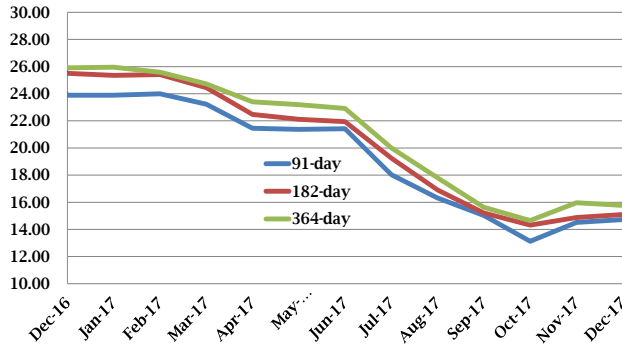
### USD/MWK Exchange Rate



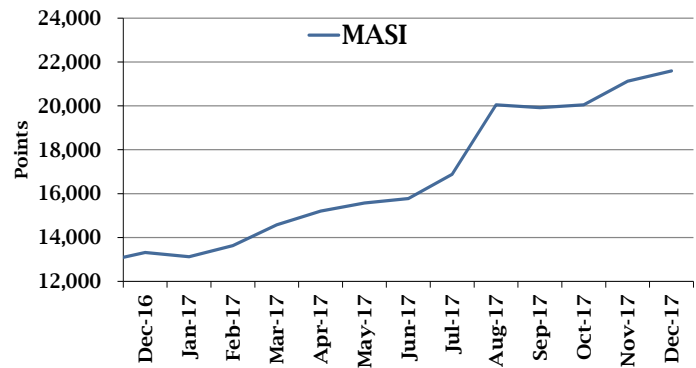
### Inflation (%) (Source: NSO)



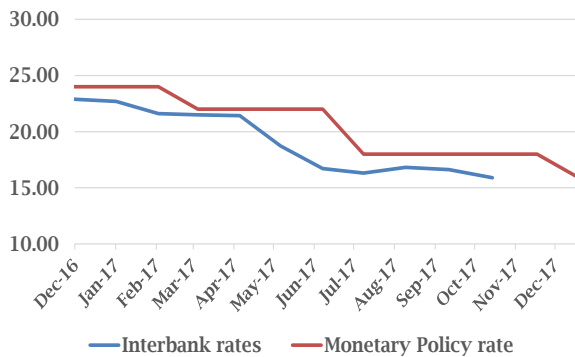
### Treasury Bill Yields (%) (Source: RBM)



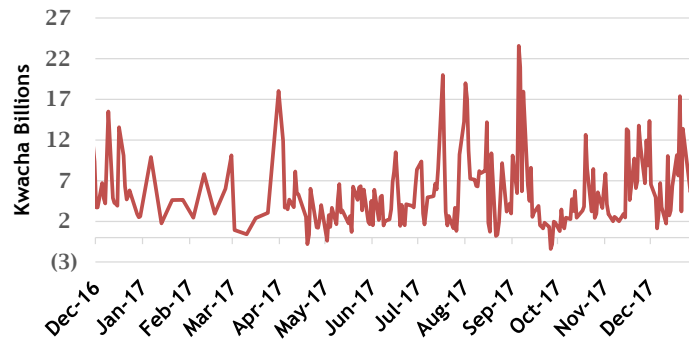
### Malawi Stock Exchange Performance



### Monetary Policy and Average Interbank Rates (%) (Source: RBM)



### Liquidity (Source: RBM)



## 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 Plc.

### Vision

“To be the preferred provider of investment and financial solutions through a culture of excellence and innovation”

### Mission Statement

“To provide innovative investment and financial solutions that grow our client's' wealth”

### 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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