



NICO
Asset Managers

NOVEMBER 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
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 Publications Limited
NPL:	National Investment Trust Plc
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 October 2017 decreased marginally to 8.30% from 8.40% in September 2017 (October 2016: 20.10%). This was due to the decrease in food inflation to 4.80% from 5.10% in September 2017. However, non-food inflation increased to 11.70% from 11.60% for the same period.

Government Securities (Source: RBM)

During the month of November 2017, the all-type Treasury bill yield increased to 15.21% from 14.03% the previous month (November 2016: 28.50%).

Total Treasury bill applications for November 2017 stood at K13.21 billion and K5.72 billion was allotted representing a 56.57% rejection rate. The 91 days paper accounted for the highest subscription rate at 37.44%, followed by the 364 days paper at 32.83% and the 182 days paper at 29.74%.

There were Open Market Operations (OMO) conducted in November 2017. A total of K39.50 billion was allotted in OMO securities, compared to K34.07 billion that was allotted in October 2017 and K91.63 billion in November 2016.

Interbank Market and Interest Rates (Source: RBM)

Liquidity levels increased in November 2017, averaging K6.90 billion per day from K4.20 billion per day in October 2017.

Access on the Lombard Facility (discount window borrowing) averaged K15.62 billion per day decreasing from K20.47 billion per day in October 2017 at an average rate of 20% as in the previous month.

Overnight borrowing between banks increased to an average of K8.97 billion per day in November 2017 at an average rate of 16.61% from K7.40 billion per day in October 2017 at an average rate of 16.81%.

Foreign Currency Market (Source: RBM)

In the month of November 2017, the Malawi Kwacha depreciated against all the major currencies. As at 30 November 2017, the Kwacha was trading at:

- MK732.25:US\$1 (0.23% marginal depreciation from the previous month)
- MK977.13:GBP1 (1.88% depreciation from the previous month)
- MK53.34:ZAR1 (2.77% depreciation from the previous month) and
- MK860.43:EUR1 (1.17% depreciation from the previous month).

Total forex reserves increased to US\$1,133.95 million (5.43 months worth of import cover) as at 30 November 2017 from US\$1,012.50 million (5.28 months worth of import cover) in October 2017 and US\$885.64 million (4.24 months of import cover) in November 2016.

Of the total reserves, US\$757.40 million (3.62 months of import cover) were gross official reserves and US\$376.55 million (1.80 months of import cover) were private reserves.

Stock Market

The stock market was bullish in November 2017, with the Malawi All Share Index (MASI) increasing by 5.35% to settle at 21,122.43 points from 20,049.06 points the previous month.

The market gainers were FMBCH (45.65% increase), Sunbird (37.14% increase), FMB (6.64% increase), Standard Bank (1.67% increase) and National Bank (0.02 increase). Three counters registered share price losses in the month under review: TNM (6.93% decrease), NBS (6.67% decrease) and NITL (0.03% decrease)

During the month, the Domestic Share Index (DSI) marginally increased by 0.57% to 15,850.21 points from 15,760.94 points while the Foreign Share Index (FSI) increased to 3,516.49 points from 2,474.85 points. The year to date return for the MASI was 58.57% as compared to negative 10.83% the previous year.

Food Security Update (Source: FEWS.NET)

Most areas across the country are experiencing minimal food security outcomes. However, some districts of southern Malawi (Nsanje, Chikwawa, Balaka and Mwanza) are projected to be in crisis/stressed during the months of November 2017 through March 2018 due to impacts of localized dry spells and pests on crops last season. These districts are planned to be targeted with assistance between December 2017 and March 2018 and outcomes are projected to improve from February to March 2018.

National and local maize supplies continue to be above average with high volumes of maize grain reported to be informally flowing into Malawi. ADMARC and the Strategic Grain Reserves are also reporting above average stocks and purchases, bringing total national stocks to approximately 200,000 MT. With the start of the season, farmers are releasing substantial amounts of their maize grain in order to sell for cash. However, the high cereals supplies in the face of reduced demand have depressed maize prices further.

Malawi has Reported a Continually Decreasing Headline Inflation Rate, but with Persistently Sticky Non-Food Inflation Rate (Source: NSO & World Bank)

Malawi's headline inflation has been declining and reached single-digit since August 2017 (9.30%). The month of October 2017 has reported a rate of 8.30% from 8.40% in September 2017. The declining trend in headline inflation mostly emanates from the decrease in food inflation due to increased availability of affordable maize.

However, non-food inflation has been sticky, showing very marginal decline over the period. While the month-on-month food inflation rate has declined by 0.30% to 4.80% in October 2017 from 5.10% in September 2017, non-food inflation rate has increased by 0.10% to 11.70% from 11.60% over the same period.

The 25.40% food inflation rate reported in October 2016 has declined by 20.60% compared to the 4.80% October 2017 food inflation rate, while the non food inflation rate has declined by only 3.50% over the same period. These trends imply that the decline in headline inflation is significantly accounted for by the declining trends in the food component while the non-food component has not very been responsive, implying a significant proportion of the costs have not been affected by RMB's open market operations.

Malawi's 2017 Economic Growth Seen Higher than 5.5%: President (Source: Reuters)

While the World Bank, in its recently released 6th edition of the Malawi Economic Monitor, has projected a 4.5% economic growth in 2017 (from 2.5% in 2016), the President of Malawi projects an economic growth of higher than 5.5%. This is said to be backed by expansion in the agricultural sector driven by continued favourable weather conditions and a bumper harvest which increased by 46%.00 in 2017 (3.5 million tonnes) from 2016 (2.4 million tonnes).

Malawi Lifts Maize Export Ban After Rains Return (Source: Reuters)

The Ministry of Industry and Trade, in accordance with the Control of Goods Act of the Laws of Malawi, banned the export of maize in order to avoid creating a shortage of the staple grain. The Malawi President lifted the 2 year ban with the assurance that the county has acquired enough maize stocks after a bumper 2016/17 harvest that helped farmers recover from a severe El-Nino-induced drought

ESCOM Releases Electricity Management Programme (Source: ESCOM)

The Electricity Supply Commission of Malawi (ESCOM) has released an electricity management programme in order to achieve and ensure equity and fairness in sharing power amongst its customers. Implementation of the published programme may be adjusted in response to the actual power available for distribution. Presently, the available capacity is between 145MW and 150MW against the average demand of 300MW.

World Bank launches Three Reports on Malawi's Economy (Source: World Bank)

The World Bank launched three reports on 22 November 2017 which include:

- Malawi Economic Monitor (MEM)-'Land for Inclusive Development'
- Country Economic Memorandum (CEM)-'From Falling Behind to Catching Up'
- Investment Climate Assessment (ICA)-'A Review of Challenges Faced By the Private Sector'

The reports review the problems facing the country and propose ways for Malawi to address its prolonged lack of development and achieve stable and sustained growth as well as poverty reduction.

Malawi Economic Monitor (MEM). Above giving the country's macroeconomic stance, the recently released MEM specifically focuses on land related issues that hamper the country's productivity. An economy heavily reliant on agricultural production, the efficient use of land resources is a precondition for the achievement of economic growth and equity. However, the country has had weak land rights and administration issues that undermine investment, job creation and the resilience of the Malawi's productive sectors. The implementation of a number of land bills, including the Customary Lands Act in September 2016, establish a legal basis to address constraints in the land management system by clarifying rights and increasing tenure security.

Investment Climate Assessment (ICA). ICA evaluates the performance of the domestic private sector firms in Malawi. It identifies the barriers to increasing private investment and sets out prioritised policy recommendations aimed at addressing the constraints. The major three constraints to productivity of enterprises in Malawi are financing, electricity and corruption. It is therefore recommended that the country needs to improve productivity of firms especially the medium sized ones, improve access to finance, focus finite public sector resources where they can achieve the greatest impact, and address policy and regulatory challenges to increase predictability and transparency and curb corruption.

Country Economic Memorandum (CEM). CEM focuses on understanding the puzzle for Malawi's lack of development despite decades of development efforts and significant amounts of foreign aid. The country has limited diversification in its export base, a dysfunctional agriculture sector, slow structural change, stagnation in capital stock growth and a tough business environment. The four priorities for change include entrenching macroeconomic stability over the medium term, focusing resources to support agricultural transformation more effectively, undertaking reforms to foster private investment and job creation, and executing reforms and restoring the effectiveness of Malawi's institutions.

ECONOMIC OUTLOOK

The Kwacha has been relatively stable, with a marginal depreciation of 0.23% against the US Dollar in November 2017 from the previous month. As the lean period continues following the closure of the tobacco market season, the Kwacha is expected to depreciate in the short to medium term due to the current account deficit and weak foreign direct investment inflows.

Inflation has remained subdued due to the continued slowdown in food prices. However a potential decrease in food availability during the lean period and as a result of the lift in the maize export ban may lead to food inflationary pressures. Non-food inflation may increase due to the possible rise in global oil prices, 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 is expected to be maintained at 18.00% 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, and no change is expected for remainder of this year. In 2018, however, the base lending rates may decline if the policy rate will be reduced.

Real economic growth is projected at 4.40% by the World Bank and 4.50% by the IMF for 2017, and at 4.50% by the World Bank and 5.00% by the IMF 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 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.

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.

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.

Banking Sector Risk

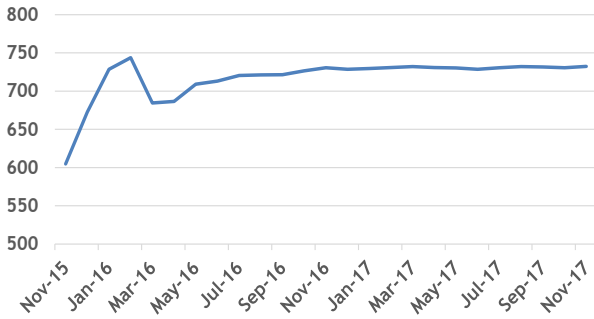
High lending rates may deter private sector growth and capital investments. High lending rates may also lead to high default rates on loan facilities and lower private sector activity.

Persistent Weak Export Base

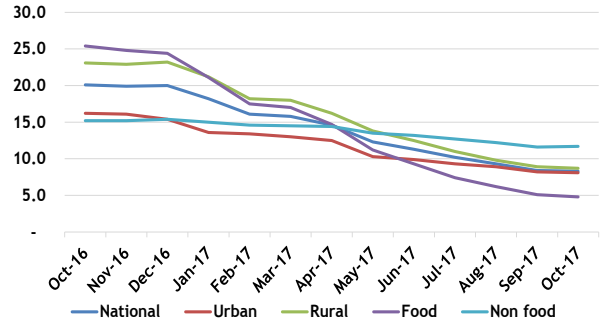
Malawi is characterised by a weak export base. This may affect the stability of the Kwacha against the major trading currencies. Low tobacco prices are likely to reduce the export value thereby maintaining the wide current account deficit leading to the depreciation of the Kwacha.

	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	M-O-M movement	Y-O-Y movement
Exchange rates (Source: RBM)															
MK: US\$	730.46	728.62	729.60	730.83	732.00	730.86	730.24	728.51	730.55	732.11	731.63	730.58	732.25	-0.23%	-0.24%
MK: GBP	912.23	893.83	914.66	906.93	904.75	941.01	935.14	948.08	957.66	943.99	977.49	969.06	977.13	-1.88%	-7.11%
MK: ZAR	52.08	52.81	53.94	56.21	53.69	55.07	55.67	55.91	56.11	56.10	53.85	51.90	53.34	-2.76%	-2.41%
MK: EUR	771.56	766.03	779.61	771.39	778.14	792.67	815.96	831.47	868.44	861.65	860.14	860.46	860.43	-1.77%	-11.52%
Forex reserves (Source: RBM)															
Total Reserves (US\$m)	886.00	943.54	946.93	933.87	878.97	895.86	934.83	1,035.10	1,044.34	1,027.33	1,096.69	1,012.50	1,133.77	11.98%	27.97%
Import Cover (months)	4.24	4.51	4.53	4.47	4.21	4.29	4.47	4.96	5.00	4.91	5.25	5.28	5.42	2.65%	27.83%
Inflation (Source: NSO)															
Headline Inflation	19.90%	20.00%	18.20%	16.10%	15.80%	14.60%	12.30%	11.30%	10.20%	9.30%	8.40%	8.30%	N/A	-0.10%	-11.60%
Food	24.80%	24.40%	21.10%	17.90%	17.00%	14.70%	11.20%	9.30%	7.40%	6.20%	5.10%	4.80%	N/A	-0.30%	-20.00%
Non Food	15.20%	15.40%	15.00%	14.80%	14.50%	14.40%	13.50%	13.20%	12.70%	12.20%	11.60%	11.70%	N/A	0.10%	-3.50%
Urban	16.10%	15.40%	13.60%	13.40%	13.00%	12.50%	10.30%	9.90%	9.30%	8.90%	8.20%	8.10%	N/A	-0.10%	-8.00%
Rural	22.90%	23.20%	21.20%	18.20%	18.00%	16.20%	13.80%	12.50%	11.00%	9.80%	8.90%	8.70%	N/A	-0.20%	-14.20%
Interbank Rates (Source: RBM)															
Monetary Policy Rate	24.00%	24.00%	24.00%	24.00%	22.00%	22.00%	22.00%	22.00%	18.00%	18.00%	18.00%	18.00%	18.00%	0.00%	-6.00%
Average Interbank Rate	27.39%	23.90%	23.08%	22.88%	22.69%	21.60%	21.50%	21.42%	18.72%	16.70%	16.02%	16.80%	16.61%	-0.19%	-10.78%
Treasury Bill Yields (Source: RBM)															
91 day Treasury Bill yield	28.00%	23.89%	23.89%	23.99%	23.23%	21.45%	21.37%	21.42%	18.03%	16.31%	15.03%	13.18%	14.52%	1.34%	-13.48%
182 day Treasury Bill yield	28.99%	25.50%	25.35%	25.41%	24.45%	22.47%	22.11%	21.94%	19.25%	16.91%	15.21%	14.26%	14.88%	0.62%	-14.11%
364 day Treasury Bill yield	29.00%	25.91%	25.96%	25.99%	24.73%	23.40%	23.19%	22.92%	20.00%	17.80%	15.63%	14.64%	15.97%	1.33%	-13.03%
Stock market (Source: MSE)															
IMASI	12,875.85	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	5.35%	64.05%
DSI	10,103.29	10,456.92	10,303.61	10,707.55	11,437.62	11,935.73	12,228.65	12,386.77	13,265.14	15,780.73	15,667.31	15,760.94	15,650.21	0.57%	56.88%
FSI	2,026.07	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	42.09%	73.56%
Fuel Prices (Source: MERA)															
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%

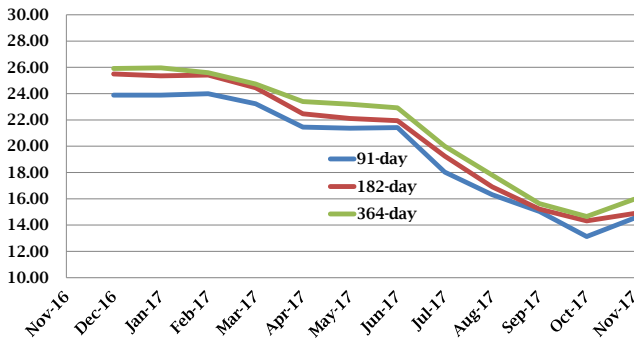
USD/MWK Exchange Rate



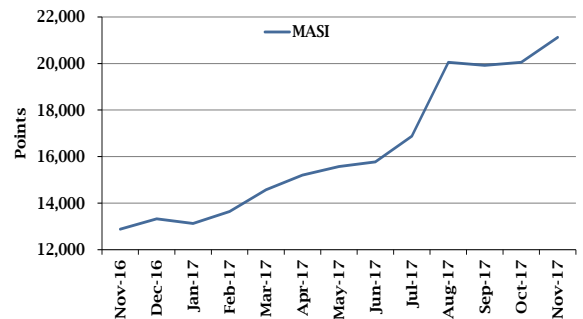
Inflation (%) (Source: NSO)



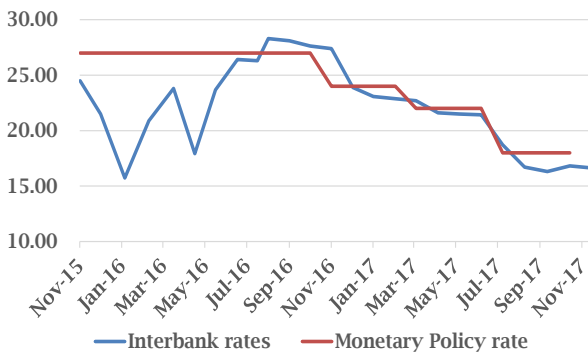
Treasury Bill Yields (%) (Source: RBM)



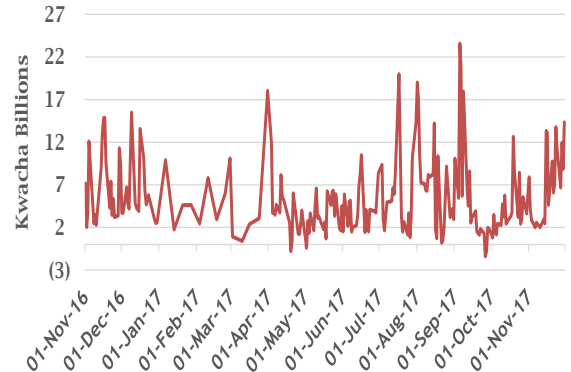
Malawi Stock Exchange Performance



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



Liquidity



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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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