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MONTHLY ECONOMIC BRIEF

APRIL 2018

Investment Management | Corporate Finance | Investor Services | Infrastructure Development

ADF:	African Development Fund
ADMARC:	Agricultural Development Marketing Corporation
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
FAW:	Fall Army Worms
FEWS NET:	Famine Early Warning Systems Network
FISP:	Farm Input Subsidy Program
FMB:	First Merchant Bank Plc
FMBCB:	First Merchant Bank Capital Holdings
FOB:	Free on Board
FSI:	Foreign Share Index
GBP:	British Pound Sterling
GDP:	Gross Domestic Product
IDA:	International Development Association
IFAD:	International Fund for Agricultural Development
IHS4:	Fourth Integrated Household Survey
ILLOVO:	Illovo Sugar Malawi Plc
IMF:	International Monetary Fund
MASI:	Malawi All Share Index
MASL:	Meters Above Sea Level
MBC:	Malawi Broadcasting Corporation
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
OML:	Old Mutual Plc
OMO:	Open Market Operations
OPEC:	Organization of the Petroleum Exporting Countries
PCL:	Press Corporation Plc
RBM:	Reserve Bank of Malawi
SACCO:	Savings and Credit Cooperative Organisation
SDF:	Southern Dark Fired Tobacco
SGR:	Strategic Grain Reserve
Standard:	Standard Bank Plc
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 March 2018 increased to 9.9% from 7.80% in February 2018 (March 2017: 15.8%). This was due to increases in both food inflation to 10.60% from 7.30% and non-food inflation to 9.70% from 9.40% for the same period. The month-on-month headline inflation rate for March 2018 stood at negative 0.9%, decreasing from 2.1% recorded in the preceding month.

Government Securities (Source: RBM)

During the month of April 2018, the all-type Treasury bill yield remained stable at 14.50% (April 2017: 22.44%).

Total Treasury bill applications for April 2018 stood at K70.65 billion and the whole amount was allotted representing a nil rejection rate. The 364 days paper accounted for the highest subscription rate at 59.02%, followed by the 182 days paper at 21.32% and the 91 days paper at 19.66%. On average, the yields for the 91 days paper, 182 days paper and 364 days paper remained steady at 14.00%, 14.50% and 15.00% in April 2018 respectively.

There were no Open Market Operations (OMO) done in April 2018 compared to a total of K88.85 billion allotted in OMO securities in March 2018 at an average rate of 15%. In April 2017, K78.34 billion was allotted in OMO securities at an average rate of 20.87%.

Interbank Market and Interest Rates (Source: RBM)

Liquidity levels increased in April 2018, averaging K11.63 billion per day from K9.83 billion per day in March 2018. Access on the Lombard Facility (discount window borrowing) averaged K3.81 billion per day increasing from K3.49 billion per day recorded in the previous month, at an average rate of 18.00%.

Overnight borrowing between banks decreased to an average of K7.29 billion per day in March 2018 at an average rate of 14.02% from K10.10 billion per day in March 2018 at an average rate of 13.85%.

Foreign Currency Market (Source: RBM)

In the month of April 2018, the Malawi Kwacha was relatively steady against the US Dollar while it appreciated against the British Pound, the South African Rand and the Euro.

As at end of April 2018, the Kwacha was trading at:

- MK732.36:US\$1 (Steady, with only 0.02% movement)
- MK1,007.20:GBP1 (2.53% appreciation from the previous month)
- MK59.01:ZAR1 (5.74% appreciation from the previous month) and
- MK882.92:EUR1 (2.56% appreciation from the previous month).

Total forex reserves decreased to US\$989.36 million (4.73 months worth of import cover) as at 27 April 2018 from US\$1,027.93 million (4.92 months worth of import cover) as at 27 March 2018 and US\$895.86 million (4.29 months of import cover) in April 2017.

Of the total reserves, US\$640.56 million (3.06 months of import cover) were gross official reserves and US\$348.80 million (1.67 months of import cover) were private sector reserves. Of the US\$895.86 million total reserves in April 2017, US\$552.91 million (2.65 months of import cover) were gross official reserves and US\$342.95 million (1.64 months of import cover) were private sector reserves.

Stock Market (Source: MSE)

The stock market was bullish in April 2018, with the Malawi All Share Index (MASI) increasing by 7.14% to settle at 27,092.17 points from 25,286.79 points the previous month (April 2017: 4.30% increase). The year to date return for the MASI stood at 25.44% as at end of April 2018 compared to 14.14% in April 2017.

The market gainers for the month of April 2018 were FMBCH (30.00% increase), Sunbird (24.61% increase), Old Mutual (24.36% increase), PCL (12.96% increase), MPICO (7.65% increase), NITL (3.60% increase), Standard Bank (3.51% increase) and National Bank (1.79% increase). TNM registered share price loss (10.00% decrease) as at end of the month under review.

During the month, the Domestic Share Index (DSI) increased by 0.83% to 18,158.46 points from 18,009.73 points (April 2017: 4.36% increase). The Foreign Share Index (FSI) increased by 29.75% to 6,743.62 points from 5,197.43 points the previous month (April 2017: 0.00% change).

Food Security Update (Source: FEWS.NET)

Minimal food security outcomes continue across most parts of the country because of adequate food stocks at the household, local market, and national level because of slightly above-average 2017 production. Contributing further to this outcome are the low and stable prices of maize and other food items throughout most of the 2017/18 consumption season.

Despite expected below-average crop production, the average price for the staple maize grain recently registered a modest decline as demand in the southern region decreased and as farmers began consuming green foods from their harvests. Ministry of Agriculture data from the Agricultural Market Information System (AMIS) shows that across the twelve markets monitored by FEWS NET, average prices declined by about 5% between February 2018 (K123.21/kg) and March 2018 (K115.90/kg).

Average maize grain prices are expected to continue decreasing and following seasonal trends for the first three months of the new consumption year as more households start consuming own produced crops. Additionally, significant carry-over stocks from the previous marketing season are expected to play an important role in keeping price increases in-check, ensuring that prices remain below average for the first few months of the marketing season.

Based on erratic and poorly distributed rainfall, both spatially and over time, the country is expected to register below-average production in major cereals including maize as well as reductions in income from major cash crop production for the 2018/19 consumption season. This will likely lead to localized food insecurity in affected areas, especially during the lean period starting from October 2018 to March 2019.

Below-average production is also expected among major cash crops including tobacco, cotton and legumes. It is also possible that crop yields have been impacted by Fall Armyworm infestations, even after control measures have been put in place.

Fuel Prices Update (Source: MERA)

Malawi Energy Regulatory Authority (MERA) has maintained fuel pump prices at their current levels. MERA considered recent trends in the world petroleum products prices and changes in other macroeconomic fundamentals in the local market and their impact on energy prices.

MERA observed that the average FOB prices of Petrol, Diesel and Paraffin increased in March 2018 when compared to the averages obtained in the month of October 2016 used as the basis for determining the ruling pump prices. The FOB prices of petrol, diesel and paraffin rose by 23.59%, 24.14% and 29.72% respectively.

MERA assessed the combined effect of the movement of the fob prices and the exchange rate of the Malawi Kwacha to the US Dollar, changes in supply contracts premiums as well as changes in local factors that determine the maximum pump prices and noted that the landed costs of Petrol, Diesel and Paraffin increased by 6.29%, 12.76% and 15.45% respectively.

The changes in the landed costs qualified all the three petroleum products for an upward pump price adjustment since the changes were beyond the +/-5% trigger limit. However, MERA resolved to maintain the pump prices for all the three products as implemented on 4 November 2016 and apply the Price Stabilisation Fund (PSF) to cover the increased landed costs of the three products.

Product	Current Pump Price (MWK/Litre)	Recommended Maximum Pump Price (MWK/Litre)	% Change
Petrol	824.7	824.7	0.00
Diesel	815.8	815.8	0.00
Paraffin	648.7	648.7	0.00

Tobacco Market Update (Source: TCC)

The 2018 tobacco marketing season for Malawi got underway on 9 April 2018 with official opening at the main market of Lilongwe Auction Floors presided over by President Arthur Peter Mutharika. Chinkhoma Auction floors and Limbe Auction Floors opened on 16 and 23 April respectively. Malawi is expected to sell 147.8 million kg of all tobaccos against the demand of 171 million kg of all tobacco. This years tobacco production represents 14% below trade requirement.

On the first day of sales, a total of 192,482 kg of burley tobacco was sold at an average price of US\$1.10 per Kg. the majority of the crop offered was of low quality as farmers presented the crop from first reaping (priming). Due to over-conditioned tobacco, rejection rates on the auction system of marketing was at 17.4%, a worse situation from 10.3% recorded on the first day of sales in 2017. The over-conditioning resulted from continuous rains over a week prior to the opening day that contributed to high humidity levels and therefore, not conducive for tobacco drying. However, the industry is very optimistic of improvement in both quality and prices.

The following are the results of the first and the cumulative results for the second week of the marketing season:

2018 Tobacco Sales: Week Three Cumulative Sales			
	2017	2018	%Change
Volume (Kg Million)	8.46	21.04	149%
Value (US\$ Million)	14.35	31.09	117%
Average Price USCents/Kg)	169.69	147.78	-13%

The IMF Executive Board Approves US\$112.3 Million under the Extended Credit Facility (ECF) Arrangement for Malawi (Sources: IMF)

The Executive Board of the International Monetary Fund (IMF) on 30 April 2018 approved a new three-year arrangement for Malawi under the Extended Credit Facility (ECF) for Special Drawing Rights (SDR) worth SDR78.075 million (about US\$112.3 million), equivalent of 56.25% of Malawi’s quota in the IMF, to support the country’s economic and financial reforms. The Executive Board’s decision enables an immediate disbursement of SDR11.15 million (about US\$16 million). The remaining amount will be phased over the duration of the program, subject to semi-annual reviews

The authorities’ ECF-supported program aims to entrench macroeconomic stability and to foster higher, more inclusive, and resilient growth. This will be achieved through fiscal consolidation to ensure long-term debt and external sustainability; containing inflation; focusing policies on poverty-reducing and resilient growth by raising the amount and quality of spending on critical infrastructure and social sectors; tackling governance challenges through improved public financial management and procurement; improving financial intermediation and strengthening access to finance; and advancing critical growth-supporting structural reforms.

The Kwacha has been relatively stable against the US Dollar in April 2018 from the previous month, maintaining the trend that lasted for most of 2017. The Kwacha is expected to remain stable in the short-term due to continued availability of foreign exchange reserves, which are adequate to guard against the Kwacha volatility. The ongoing 2018 tobacco marketing season is expected to continue supporting the Kwacha through boosting the build up of foreign exchange reserves. However, in the medium to long term, the Kwacha is expected to depreciate on account of significant current account deficits and weak foreign direct investment inflows.

Food inflationary pressures increased in March 2018 as evidenced by a rise in food inflation rate recorded in the month. During the harvesting period, increased availability of food is expected to moderate food inflationary pressures as households access green foods from own production and from the local markets which will eventually decrease demand for the staple crop on the local markets. After the growing season, food inflationary pressures are likely to occur driven by speculation of reduced food availability on account of dry spell and infestation of crops by fall army worms that have reduced this year's agricultural output projection. However, significant carry-over stocks from the previous agricultural season are expected to play an important role in keeping significant food inflationary pressures in check.

Non-food inflation may increase due to a rise in global oil prices as a result of global reduction in oil production and the rising tensions in the Middle East. Other factors that may put pressure on non-food inflation include the demand for wage increases, housing cost increases, increase in electricity tariff and increase in government expenditure.

(Sources: RBM, EIU, FEWS NET).

The monetary policy rate is expected to be maintained at 16.00% in the short term. Furthermore, upside risks to inflation outlook are expected to have an impact on monetary policy rate cut. Interest rates on the interbank market are dependent on the volatility of liquidity and therefore susceptible to change. Treasury bill yields are expected to remain below the Monetary Policy Rate.

Fiscal deficit is projected to widen from an estimated 3.7% of GDP in 2016/17 to 4.4% of GDP in 2017/18 owing to high government expenditure and revenue underperformance. Furthermore election-related expenditures in the forthcoming 2019 elections are expected to exert more pressure on fiscal policy stance.

In 2018, real economic growth is projected to range between 3.60% to 4.50% based on EIU, World Bank, IMF and RBM forecasts. These growth projections are partly 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.

EIU and RBM's 2018 growth projections at 3.6% (2017:4.4%) and 4.0% (2017:5.1%) respectively follows a reduction in 2018 maize harvest forecast owing to pest outbreak and the dry spell. In addition, the EIU already expected market distortions in 2017 to have a carry-over effect on the size of the maize harvest in 2018, owing to a loss of confidence and undercapitalization of farmers, which is expected to make them find it difficult to exceed the maize production levels reached in 2017.

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. Malawi's public debt increased by 5.1% as at fourth quarter of 2017 to K2.47 trillion from K2.35 trillion recorded in the preceding quarter. Domestic debt increased by 7.9% to K0.98 trillion, while external debt increased by 3.3% to K1.49 trillion. Total debt to GDP ratio increased to 52.8% from 50.3% at the end of third quarter of 2017. The ratio of external debt stood at 31.5% as at fourth quarter of 2017 which is above the 30.0% IMF's regulatory threshold. Long term debt results in higher levels of interest payments which increase government expenditure and the budget deficit.

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

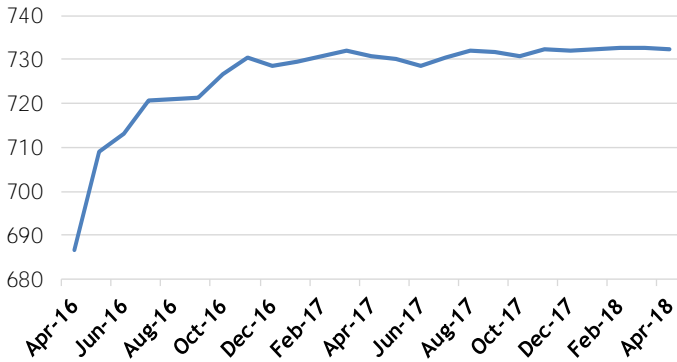
Malawi is characterised by a weak export base. This may affect the stability of the Kwacha against the major trading currencies. Low tobacco prices are likely to reduce the export value thereby maintaining the wide current account deficit leading to the depreciation of the Kwacha.

High Population Growth

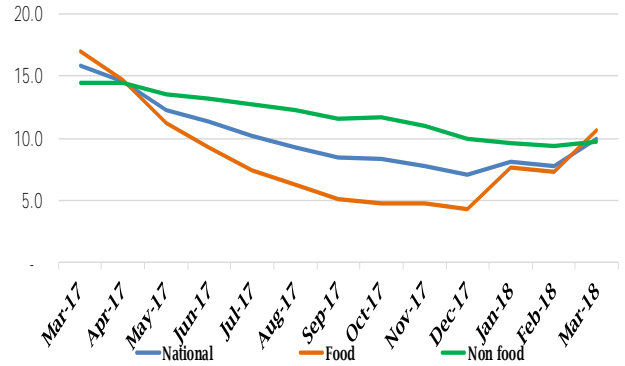
High population growth rate has a negative impact on average per capita income. As such, improved economic growth does not translate into real sector growth. Furthermore, the resources that the country could have allocated to more productive activities are used to take care of the growing population.

	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	M-O-M movement	Y-O-Y movement
Exchange rates (Source: RBM)															
MK - US\$	730.86	730.24	728.51	730.55	732.11	731.63	730.58	732.25	732.03	732.23	732.58	732.51	732.36	0.02%	-0.21%
MK - GBP	941.01	935.14	948.08	957.66	943.99	977.49	959.06	977.13	979.53	1,038.82	1,010.45	1,033.37	1,007.20	2.53%	-7.03%
MK - ZAR	55.07	55.67	55.91	56.11	56.10	53.85	51.90	53.34	59.04	60.99	62.14	62.61	59.01	5.74%	-7.16%
MK - EUR	792.67	815.96	831.47	858.44	861.65	860.14	860.46	860.43	869.07	902.47	891.04	906.12	882.92	2.56%	-11.39%
Forex reserves (Source: RBM)															
Gross Official Reserves (US\$mn)	552.91	611.25	678.70	693.43	655.08	750.23	764.42	757.40	757.08	712.98	693.51	678.77	640.56	-5.63%	15.85%
Private Sector Reserves (US\$mn)	342.95	323.58	356.40	350.91	372.25	346.46	338.08	376.55	412.98	389.95	348.88	349.16	348.80	-0.10%	1.71%
Total Reserves (US\$mn)	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	1,102.93	1,042.39	1,027.93	989.36	-3.75%	10.44%
Total Import Cover (months)	4.29	4.47	4.96	5.00	4.91	5.25	5.28	5.42	5.60	5.28	4.99	4.92	4.73	-3.86%	10.26%
Inflation (Source: NSO)															
Headline Inflation	14.60%	12.30%	11.30%	10.20%	9.30%	8.40%	8.30%	7.70%	7.10%	8.10%	7.80%	9.90%	NA	2.10%	-5.90%
Food	14.70%	11.20%	9.30%	7.40%	6.20%	5.10%	4.80%	4.70%	4.30%	7.60%	7.30%	10.60%	NA	3.30%	-6.40%
Non Food	14.40%	13.50%	13.20%	12.70%	12.20%	11.60%	11.70%	11.00%	10.00%	9.60%	9.40%	9.70%	NA	0.30%	-4.80%
Interbank Rates (Source: RBM)															
Monetary Policy Rate	22.00%	22.00%	22.00%	18.00%	18.00%	18.00%	18.00%	18.00%	16.00%	16.00%	16.00%	16.00%	16.00%	0.00%	-6.00%
Average Interbank Rate	21.60%	21.50%	21.42%	18.72%	16.70%	16.02%	16.80%	16.61%	15.89%	14.95%	15.20%	13.85%	14.02%	0.17%	-7.58%
Average Base Lending Rates	31.64%	31.64%	31.64%	27.77%	27.55%	27.55%	27.55%	27.55%	27.55%	25.41%	25.41%	25.41%	25.41%	0.00%	-6.23%
Treasury Bill Yields (Source: RBM)															
91 day Treasury Bill yield	21.45%	21.37%	21.42%	18.03%	16.31%	15.03%	13.18%	14.52%	14.73%	14.00%	13.98%	14.00%	14.00%	0.00%	-7.45%
182 day Treasury Bill yield	22.47%	22.11%	21.94%	19.25%	16.91%	15.21%	14.26%	14.88%	15.10%	14.50%	14.50%	14.50%	14.50%	0.00%	-7.97%
364 day Treasury Bill yield	23.40%	23.19%	22.92%	20.00%	17.80%	15.63%	14.64%	15.97%	15.77%	15.00%	15.00%	15.00%	15.00%	0.00%	-8.40%
Stock Market Indices (Point) (Source: MSE)															
MAS	15,203.97	15,573.68	15,772.51	16,877.16	20,049.44	19,920.42	20,949.06	21,122.43	21,598.07	22,223.44	23,182.59	25,286.79	27,092.17	7.14%	78.19%
DSI	11,935.73	12,228.65	12,386.77	13,265.14	15,780.73	15,687.31	15,760.94	15,860.21	16,272.64	16,692.97	17,535.66	18,009.73	18,158.46	0.83%	52.14%
FSI	2,308.87	2,305.21	2,325.21	2,325.21	2,425.75	2,425.75	2,474.85	3,516.49	3,519.43	3,673.87	3,706.12	5,197.43	6,743.62	29.75%	192.07%
Fuel Prices per Litre (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%

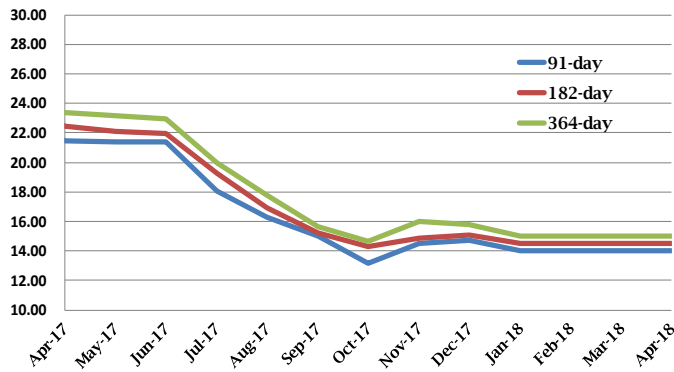
USD/MWK Exchange Rate (Source: RBM)



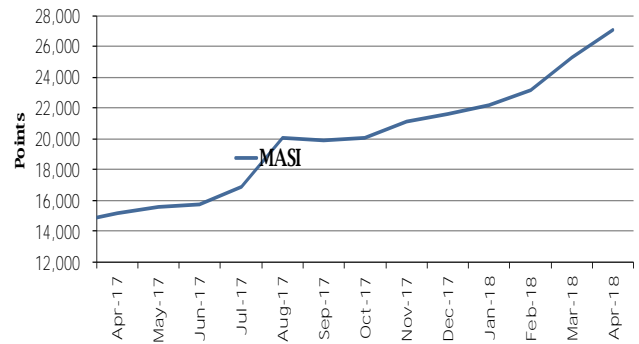
Inflation (%) (Source: NSO)



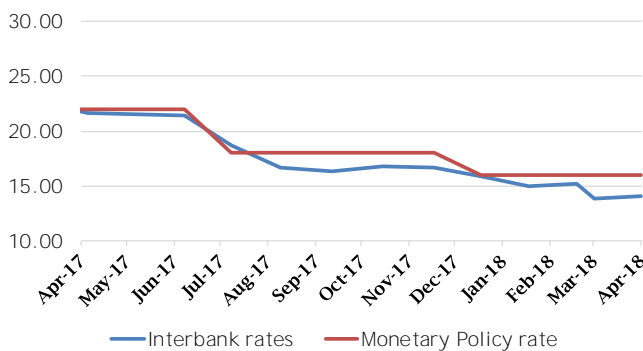
Treasury Bill Yields (%) (Source: RBM)



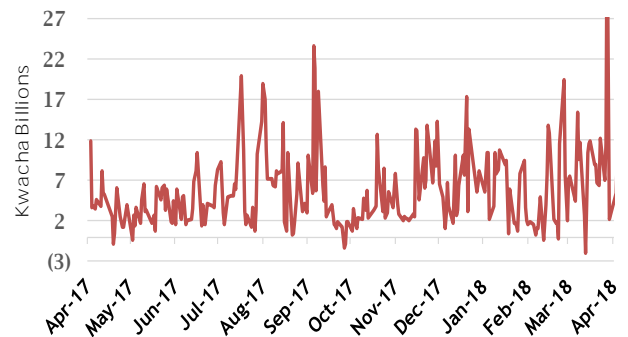
Malawi Stock Exchange Performance (Source: MSE)



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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