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MONTHLY ECONOMIC BRIEF MARCH 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 February 2018 decreased to 7.80% from 8.10% in January 2018 (February 2017: 16.10%). This was due to a decrease in both food inflation to 7.30% from 7.60% and non-food inflation to 9.40% from 9.60% for the same period. The National Statistical office has started releasing month-on-month inflation rates since January 2018, the same time it revised the base year for CPI computations and consequently the weights of the items in the consumer basket. The month-on-month headline inflation rate for February 2018 stood at 2.1%, decreasing from 4.5% recorded in the preceding month.

Government Securities (Source: RBM)

During the month of March 2018, the all-type Treasury bill yield remained stable at 14.50% as recorded in the preceding month (March 2017: 24.14%).

Total Treasury bill applications for March 2018 stood at K82.14 billion and the whole amount was allotted representing a nil rejection rate. The 364 days paper accounted for the highest subscription rate at 60%, followed by the 91 days paper at 30% and the 182 days paper at 10%. On average, the yield for the 91 days paper increased marginally to 14.00% in March 2018 from 13.98% the previous month, while the yields for 182 days and 364 days papers remained steady at 14.50% and 15.00% in March 2018 respectively.

There were Open Market Operations (OMO) done in March 2018. A total of K88.85 billion was allotted in OMO securities compared to K61.15 billion which was allotted in February 2018, at an average rate of 15%. In March 2017, K90.44 billion was allotted in OMO securities at an average rate of 24.78%.

Interbank Market and Interest Rates (Source: RBM)

Liquidity levels increased in March 2018, averaging K9.83 billion per day from K4.99 billion per day in February 2018. Access on the Lombard Facility (discount window borrowing) averaged K3.49 billion per day decreasing from K9.69 billion per day recorded in the previous month, at an average rate of 18.00%.

Overnight borrowing between banks increased to an average of K10.10 billion per day in March 2018 at an average rate of 13.85% from K5.97 billion per day in January 2018 at an average rate of 15.20%.

Foreign Currency Market (Source: RBM)

In the month of March 2018, the Malawi Kwacha was steady against the US Dollar while it depreciated against the British Pound, the South African Rand and the Euro. As at end March 2018, the Kwacha was trading at:

- MK732.51:US\$1 (Steady, with only 0.01% movement)
- MK1,033.37:GBP1 (2.27% depreciation from the previous month)
- MK62.61:ZAR1 (0.75% depreciation from the previous month) and
- MK906.12:EUR1 (1.69% depreciation from the previous month).

Total forex reserves decreased to US\$1,027.93 million (4.92 months worth of import cover) from US\$1,045.37 million (5.00 months worth of import cover) as at February 2018 and US\$885.86 million (4.24 months of import cover) in March 2017.

Of the total reserves, US\$678.77 million (3.25 months of import cover) were gross official reserves and US\$349.16 million (1.67 months of import cover) were private sector reserves. Of the US\$885.86 million total reserves in March 2017, US\$552.85 million (2.65 months of import cover) were gross official reserves and US\$333.01 million (1.59 months of import cover) were private sector reserves.

Stock Market (Source: MSE)

The stock market was bullish in March 2018, with the Malawi All Share Index (MASI) increasing by 9.08% to settle at 25,286.79 points from 23,182.59 points the previous month (March 2017: 6.91% increase). The year to date return for the MASI stood at 17.08% as at end March 2018 compared to 9.44% in March 2017.

The market gainers for the month of March 2018 were FMBCH (41.44% increase), OML (18.59% increase) MPICO (16.56% increase), NICO (6.67% increase), TNM (5.10% increase), NBM (3.67% increase), PCL (0.33% increase) and Sunbird (0.05% increase). NITL registered share price loss (8.24% decrease) as at end of the month under review.

During the month, the Domestic Share Index (DSI) increased by 2.70% to 18,009.73 points from 17,535.66 points (March 2017: 6.82% increase). The Foreign Share Index (FSI) increased by 40.24% to 5,197.43 points from 3,706.12 points the previous month (March 2017:13.96% increase).

Food Security Update (Source: FEWS.NET)

Increased rainfall in February and March 2018 has improved soil moisture reserves, water resources and pasture availability across the country. Short term forecasts indicate that scattered rain is expected in late March 2018 for winter cropping. Although the improved rainfall performance has led to revitalization in some crops, below average production is still expected for the 2018 agricultural season due to lack of adequate rainfall during the critical crop growing periods earlier this growing season.

In the preceding month, FEWS NET projected that the 2017/18 harvest will be negatively impacted by dry spells and pest attacks, which could lead to production that is 10% below last season's production or 5% less than the five year average and national cereal requirements. Production of main cash crops such as tobacco, cotton and legumes are also likely to register reductions.

Speculative trade behavior is driving some price increases in anticipation of the projected reduced output in 2017/18. Based on data from the Ministry of Agriculture Market Information System (AMIS), the average price for maize in the markets monitored by Fews Net increased by about 17% between January 2018 and February 2018.

Although most households are consuming food from own production, an increasing number of households are also relying more on food purchases during March, which is the peak of the lean season.

2018 Monetary Policy Committee (MPC) Meetings Timetable (Source: RBM)

The Reserve Bank of Malawi, on 16 March 2018, released the timetable for the MPC meetings for this year as follows:

MPC Meetings	Dates
• First	27-28 March 2018
• Second	27-28 June 2018
• Third	26-27 September 2018
• Fourth	12-13 December 2018

27-28 March 2018 MPC Meeting Statement (Source: RBM)

At its meeting held on 27-28 March 2018, the Reserve Bank of Malawi MPC decided to maintain the Policy Rate unchanged at 16%. In coming up with this decision, the committee observed that despite sustained decelerations in inflation in 2017, upside risks to inflation outlook still persist. These include the possible further increase in utility tariffs and the potentially unchanged fiscal policy stance.

The committee also decided to maintain the Liquidity Reserve Requirement (LRR) at 7.5% and the Lombard Rate at 200 basis points above the Policy Rate. The MPC states that maintaining the current monetary stance is appropriate to consolidate the gains made so far especially the achievement of a single digit inflation and ensure that it converges to the medium term objective of 5%.

The following is the summary of the macroeconomic projections made during the meeting:

- **Inflation**

Headline inflation rate is projected to remain in single digits throughout 2018, and to converge to the medium term target of 5%. Potential non-food inflationary pressures will be stabilized due to the expected stability in the exchange rate and international oil prices.

- **Economic Growth**

Economic growth rate in 2018 is projected at 4% from an estimated 5.1% in 2017 on account of irregular rainfall pattern and the spread of fall army worms.

- **Foreign exchange Reserves**

The expected inflows of foreign currency from the start of agriculture marketing season is expected to foster a build-up of international reserves. As such, the international reserves will be maintained at a minimum of three months of import cover.

Central Government Budgetary Operations for January 2018 (Source: RBM)

RBM Monthly Economic Review for January 2018 released on 19 March 2018 has shown that fiscal deficit for the review month declined to K13.9 billion from K16.8 billion recorded in the preceding month. However, a surplus of K13.6 billion was registered in the same month last year. This fiscal position represented 0.3% of GDP.

• Revenue Performance

Total revenues rose for January 2018 by 15.8% to K86.5 billion following a decrease of 6.7% to K74.4 billion recorded in the preceding month on account of increase in both domestic and foreign inflows. On a year on year basis, total revenues dropped by 6.5% from K92.5 billion recorded at the end of January 2017. Domestic revenues increased by 13.3% to K78.9 billion driven by increase in both tax and non-tax revenues which increased by 11.8% to K74.7 billion and 49.5% to K 4.2 billion over the review period respectively. On the other hand, foreign inflows grew by 50.0% to K7.6 billion from a decrease of 52.4% to K5.1 billion recorded in the previous month.

• Expenditure Performance

Total government expenditures in the month of January 2018 registered a 9.7% increase to K100.4 billion, following a drop of 24.0% in the preceding month to K91.5 billion. The increase was observed in recurrent expenditures while development expenditures declined. Recurrent expenditures increased by K11.1 billion to K85.3 billion whilst development expenditures decreased by K2.3 billion to K15.1 billion. Major expenditure increases were observed in other local transfers and external transfers of K8.3 billion and K2.4 billion, respectively.

2018/19 Pre-Budget Consultations (Source: MBC)

The Ministry of Finance, Economic Planning and Development rolled out on pre-budget consultations for the 2018/19 financial year which were scheduled to take place in the three cities of Blantyre, Lilongwe and Mzuzu on 20th, 22nd and 24th March 2018 respectively.

The aim of the consultations, which are conducted annually, is to solicit views and contributions from various stakeholders in Malawi to guide in the implementation of the budgets.

Financial Results for The Year 2017 (Sources: BHL, Standard Bank, TNM, NITL, Sunbird)

Some companies have released their financial results for the year 2017 as follows:

Published Financials for 2017			
	Net Profit/(Loss) (MK'Million)		% Change
	2017	2016	
BHL	507	414	22%
STANDARD	12,162	19,425	-37%
TNM	13,108	8,206	60%
NITL	2,221	(1,071)	107%
SUNBIRD	2,433	1,336	82%
NBM	19,147	16,605	15.3%

The Kwacha has been relatively stable against the US Dollar in March 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 opening of the tobacco marketing season on 9 April 2018 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 subsided in February 2018 as evidenced by a decline in food inflation rate recorded in the month. As the country moves towards the harvesting period which commences in April for most farmers, availability of food may moderate food inflationary pressures further. 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 is threatening this season's maize output. However, since the country holds enough stocks from the 2016/17 above average yield, this should provide cushion against any significant food inflationary pressures.

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 strengthening of the South African Rand which entail high import cost as the country's imports are dominated by South African products (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.

In 2018, real economic growth is projected at 4.50% by the World Bank and 5.00% by the IMF. This growth projection is 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.

However, the EIU has revised the country's economic growth rate for 2018 downwards to 3.6% from the initial projection of 4.1% (2017:4.4%) following a reduction in its 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.

Furthermore, RBM has also lowered its growth projections for 2018 to 4% compared to the estimated 5.1% economic growth in 2017. This lower economic growth projection is driven by the negative impact that the dry spell and the fall army worms are expected to have on this year's agricultural output.

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

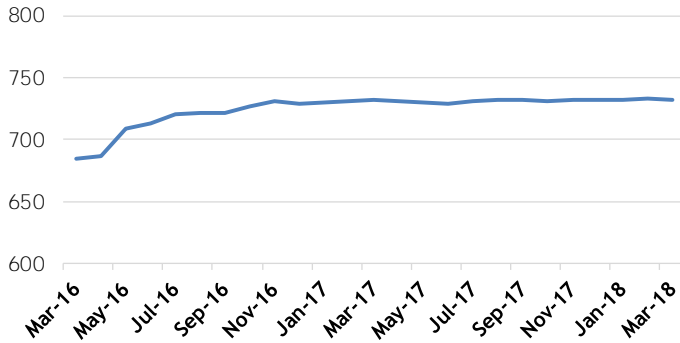
Malawi is characterised by a weak export base. This may affect the stability of the Kwacha against the major trading currencies. Low tobacco prices are likely to reduce the export value thereby maintaining the wide current account deficit leading to the depreciation of the Kwacha.

High Population Growth

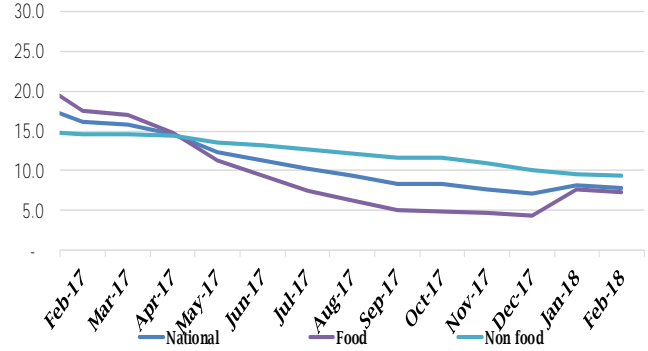
High population growth rate has a negative impact on average per capita income. As such, improved economic growth does not translate into real sector growth. Furthermore, the resources that the country could have allocated to more productive activities are used to take care of the growing population.

	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	M-Q-M	Y-o-Y movement
Exchange rates (Source: RBM)															
MK: US\$	732.00	730.86	730.24	728.51	730.55	732.11	731.63	730.56	732.25	732.03	732.23	732.38	732.51	0.01%	↓ -0.07%
MK: GBP	904.75	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	↓ -2.27%	↓ -14.22%
MK: ZAR	53.69	55.07	55.67	55.91	56.11	56.10	53.85	51.90	53.34	59.04	60.99	62.14	62.61	↓ -0.75%	↓ -16.62%
MK: EUR	778.14	792.67	815.96	831.47	858.44	861.65	860.14	860.46	860.43	869.07	902.47	891.04	906.12	↓ -1.69%	↓ -16.45%
Foreign reserves (Source: RBM)															
Gross Official Reserves (US\$m)	552.85	552.91	611.25	678.70	693.43	655.08	750.23	764.42	757.40	757.06	712.96	693.51	678.77	↓ -2.13%	↑ 22.76%
Private Sector Reserves (US\$m)	333.01	342.95	323.58	356.40	330.91	372.25	346.46	338.08	376.55	412.98	389.95	348.88	349.16	↑ 0.08%	↑ 4.85%
Total Reserves (US\$m)	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	1,102.93	1,042.39	1,027.93	↓ -1.39%	↑ 16.04%
Total Import Cover (months)	4.21	4.29	4.47	4.96	5.00	4.91	5.25	5.28	5.42	5.60	5.28	4.99	4.92	↓ -1.40%	↑ 16.86%
Inflation (Source: NSO)															
Headline Inflation	15.80%	14.60%	12.30%	11.30%	10.20%	9.30%	8.40%	8.30%	7.70%	7.10%	8.10%	7.80%	N/A	↓ -0.30%	↓ -8.30%
Food	17.00%	14.70%	11.20%	9.30%	7.40%	6.20%	5.10%	4.80%	4.70%	4.30%	7.60%	7.30%	N/A	↓ -0.30%	↓ -10.20%
Non Food	14.50%	14.40%	13.50%	13.20%	12.70%	12.20%	11.60%	11.70%	11.00%	10.00%	9.60%	9.40%	N/A	↓ -0.20%	↓ -5.20%
Interbank Rates (Source: RBM)															
Monetary Policy Rate	22.00%	22.00%	22.00%	22.00%	18.00%	18.00%	18.00%	18.00%	18.00%	16.00%	16.00%	16.00%	16.00%	↑ 0.00%	↓ -6.00%
Average Interbank Rate	22.69%	21.60%	21.50%	21.42%	18.72%	16.70%	16.02%	16.80%	16.61%	15.89%	14.95%	15.20%	13.85%	↓ -1.35%	↓ -8.84%
Average Base Lending Rates	31.64%	31.64%	31.64%	31.64%	27.77%	27.55%	27.55%	27.55%	27.55%	27.55%	25.41%	25.41%	25.41%	↑ 0.00%	↓ -6.23%
Treasury Bill Yields (Source: RBM)															
91 day Treasury Bill yield	23.23%	21.45%	21.37%	21.42%	18.03%	16.31%	15.03%	13.18%	14.52%	14.73%	14.00%	13.98%	14.00%	↑ 0.02%	↓ -9.23%
182 day Treasury Bill yield	24.45%	22.47%	22.11%	21.94%	19.25%	16.91%	15.21%	14.20%	14.88%	15.10%	14.50%	14.50%	14.50%	↑ 0.00%	↓ -9.95%
364 day Treasury Bill yield	24.73%	23.40%	23.19%	22.92%	20.00%	17.80%	15.63%	14.64%	15.97%	15.77%	15.00%	15.00%	15.00%	↑ 0.00%	↓ -9.73%
Stock Market Indices (Point) (Source: MSE)															
IMSI	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	22,223.44	23,182.59	25,286.79	↑ 9.08%	↑ 73.46%
DSI	11,437.62	11,995.73	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	↑ 2.70%	↑ 57.46%
FSI	2,308.87	2,308.87	2,325.21	2,325.21	2,325.21	2,425.75	2,425.75	2,474.65	3,516.49	3,519.43	3,673.87	3,706.12	5,197.43	↑ 40.24%	↑ 123.11%
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%

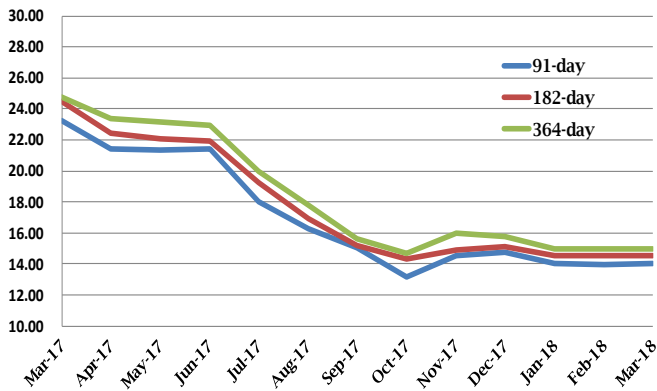
USD/MWK Exchange Rate



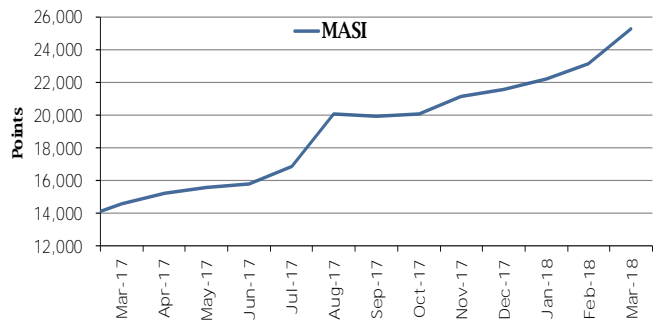
Inflation (%) (Source: NSO)



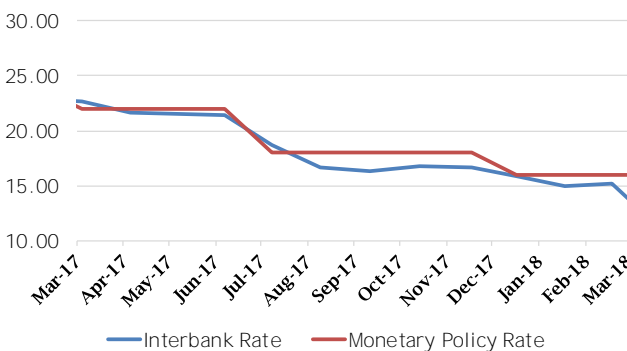
Treasury Bill Yields (%) (Source: RBM)



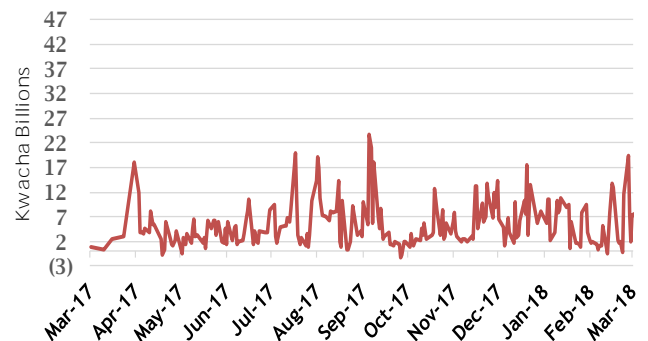
Malawi Stock Exchange Performance (Source: MSE)



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



Liquidity (Source: RBM)



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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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