

Financial Market Update

| Week ending 18 December 2020



The following highlights compare the week ending 18 December 2020 to the week ending 11 December 2020:



EQUITY MARKET (Source: MSE)

- The MASI increased to 31,683.06 points this week, from 30,845.71 points last week. This was due to share price gains in various counters which offset the share price losses. The return on MASI (year-to-date) was 4.73% compared to 1.91% during the same period last year.
- There were share price gains for FDH Bank (from K13.29 to K14.45), NBM (from K598.80 to K650.00) and Standard Bank (from K851.00 to K910.00).
- There were share price losses for NBS (from K20.27 to K20.20), NITL (from K94.97 to K94.95) and TNM (from K19.24 to K19.23).



FINANCIAL MARKET DEVELOPMENTS (Source: RBM)

- Headline inflation for November 2020 decreased to 7.3% from 7.5% in the previous month.
- The daily overnight interbank average rate decreased to 11.21% this week from 11.28% last week.



CURRENCY MARKET (Source: RBM)

- The Malawi Kwacha marginally depreciated against the USD from K767.60 per USD to K770.56 per USD.
- The Kwacha depreciated against the GBP from K1,053.83 to K1,074.83, the EUR (from K972.16 per EUR to K979.54 per EUR) and the ZAR (from K54.13 per ZAR to K56.28 per ZAR).

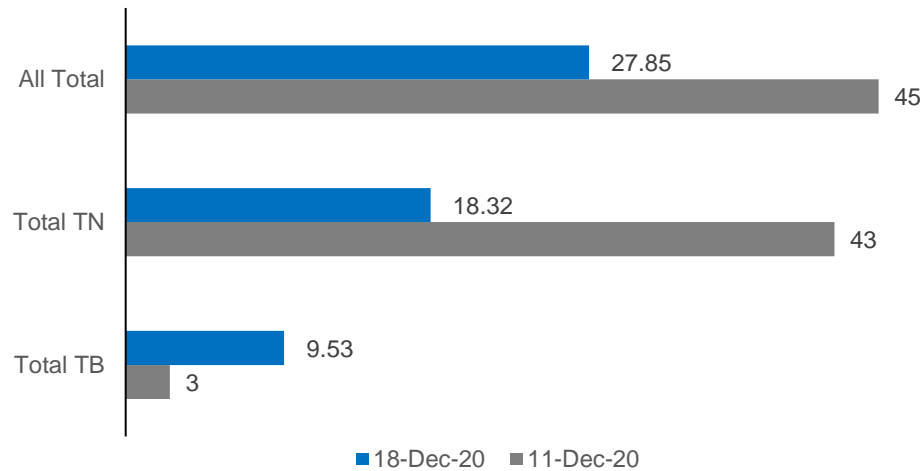


GOVERNMENT SECURITIES (Source: RBM)

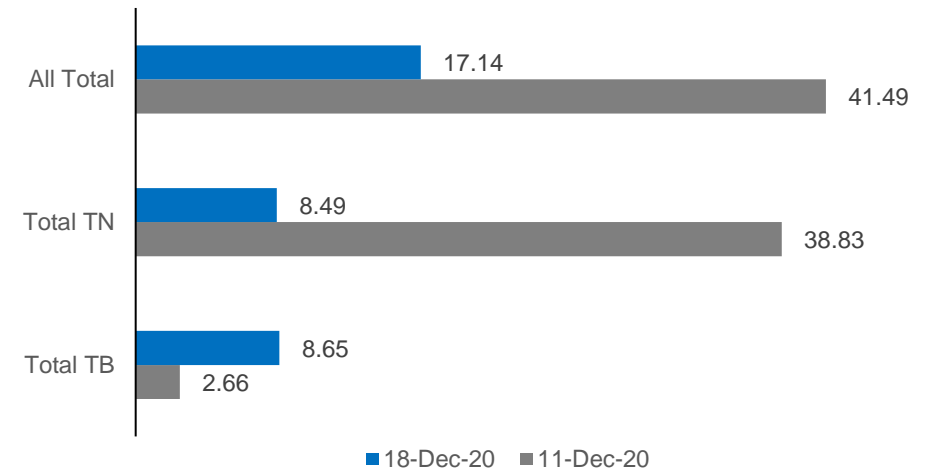
- A total of K17.14 billion was raised this week in the Treasury Bill (TB) and Treasury Note (TN) auctions.
- The TB and TN auctions raised K8.65 billion and K8.49 billion, respectively.
- The average all type TB yield increased to 12.00% from 11.98%.
- The TB and TN auctions had rejection rates of 9.23% and 53.66%, respectively.



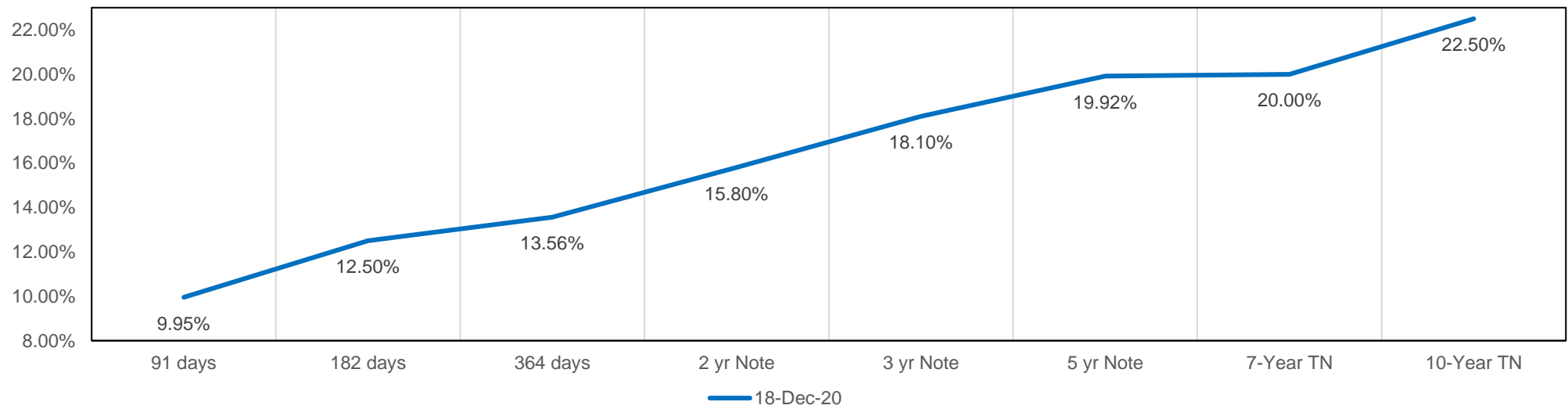
TB and TN applications (K'billion) – there were applications of K27.85 billion in the TB and TN auctions held this week.



TB and TN allotments (K'billion) – a total of K17.14 billion was allotted in the TB and TN auctions this week.

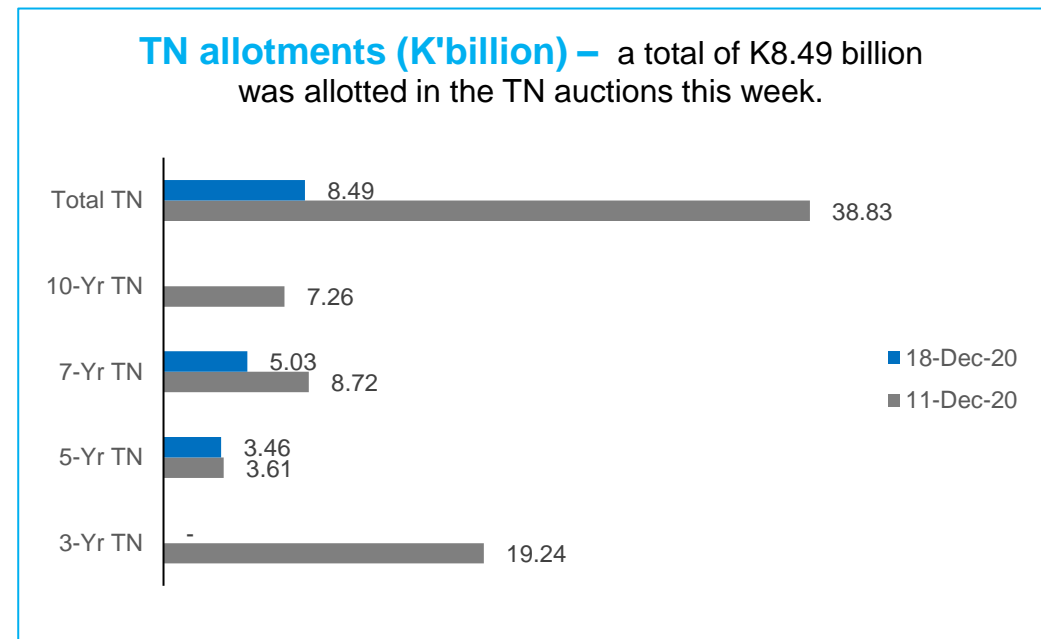
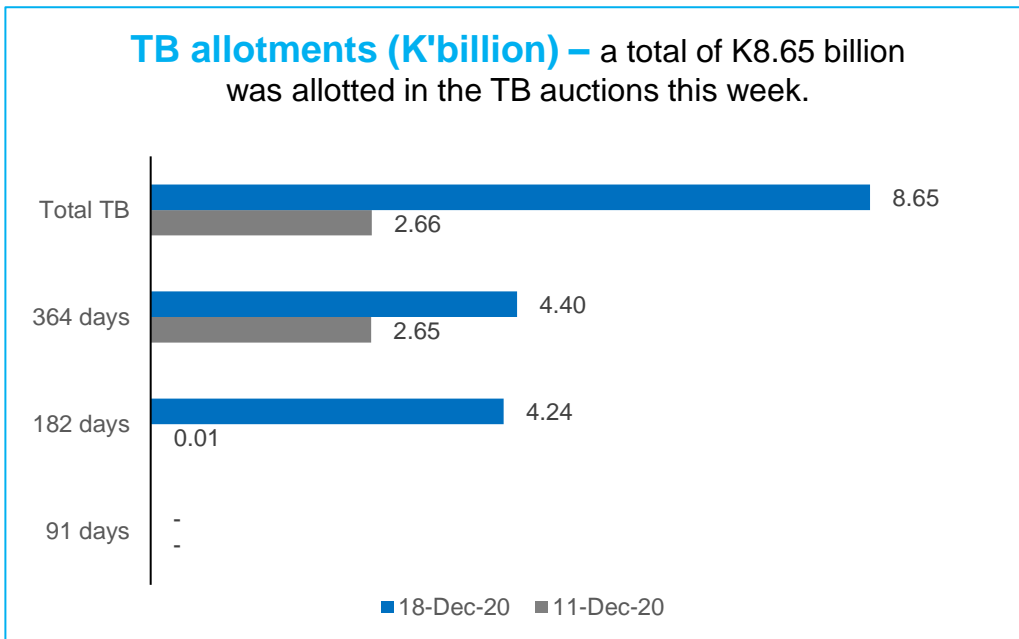
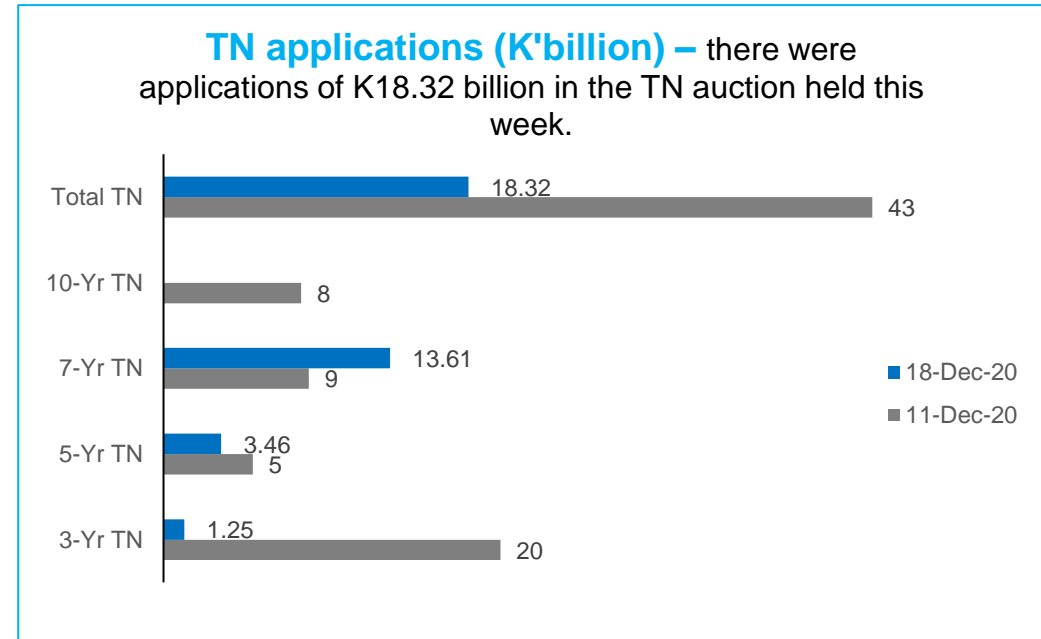
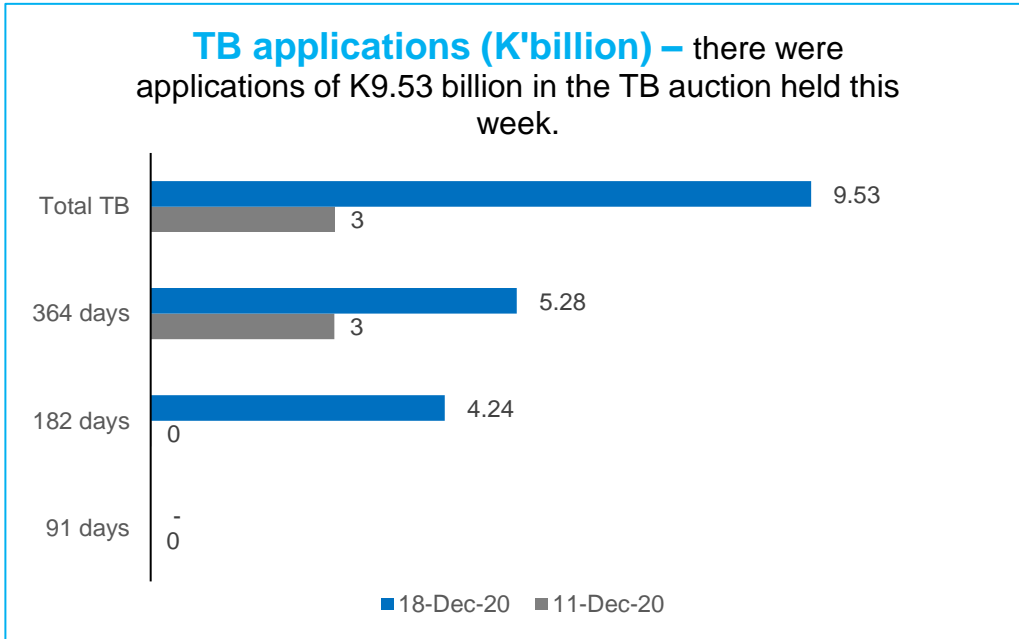


Government Securities' Yield Curve



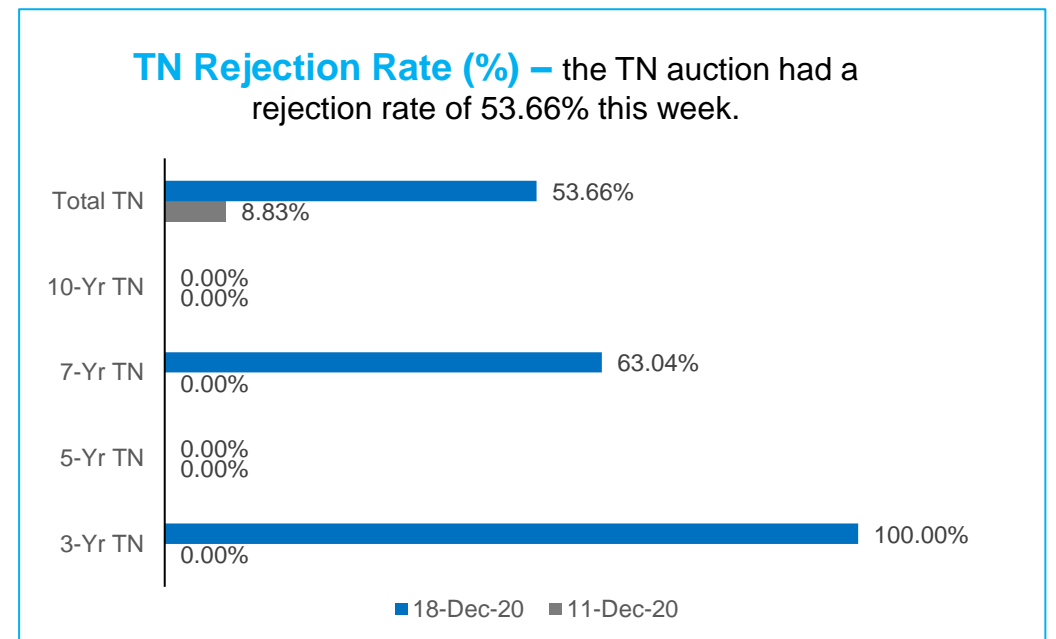
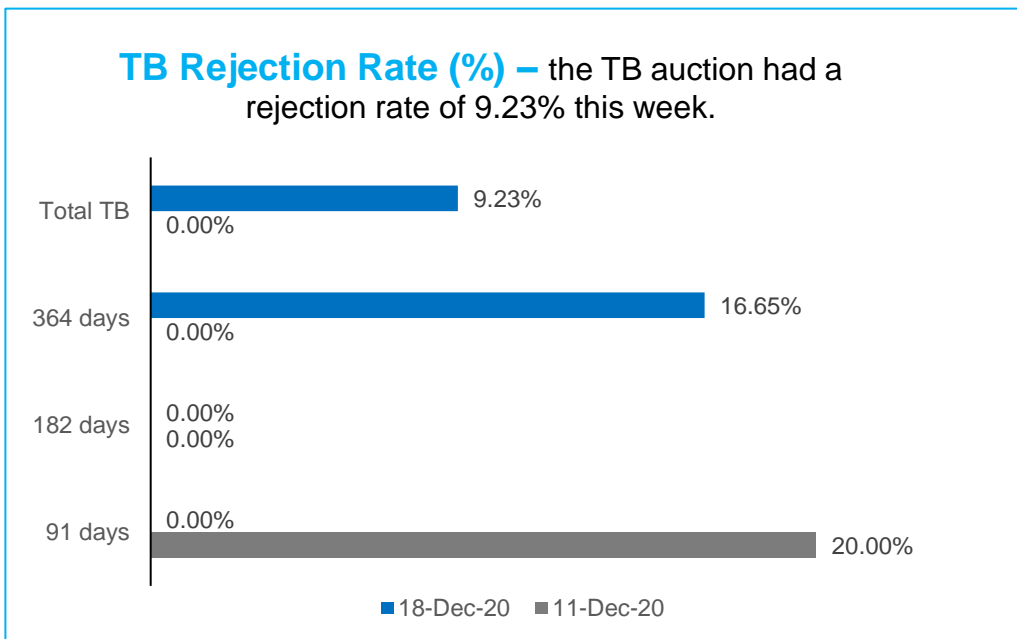
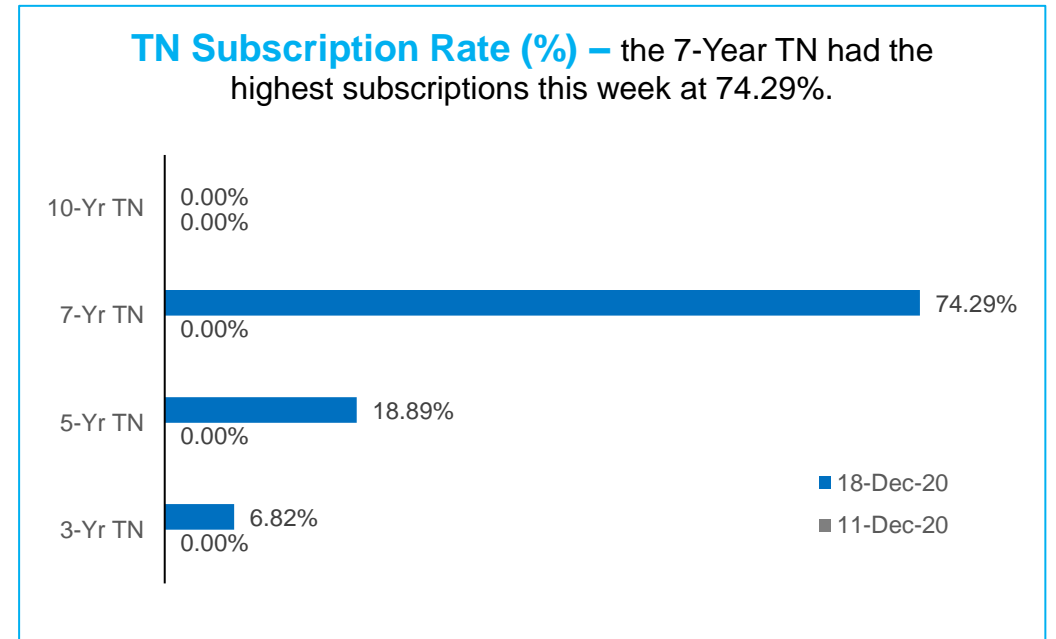
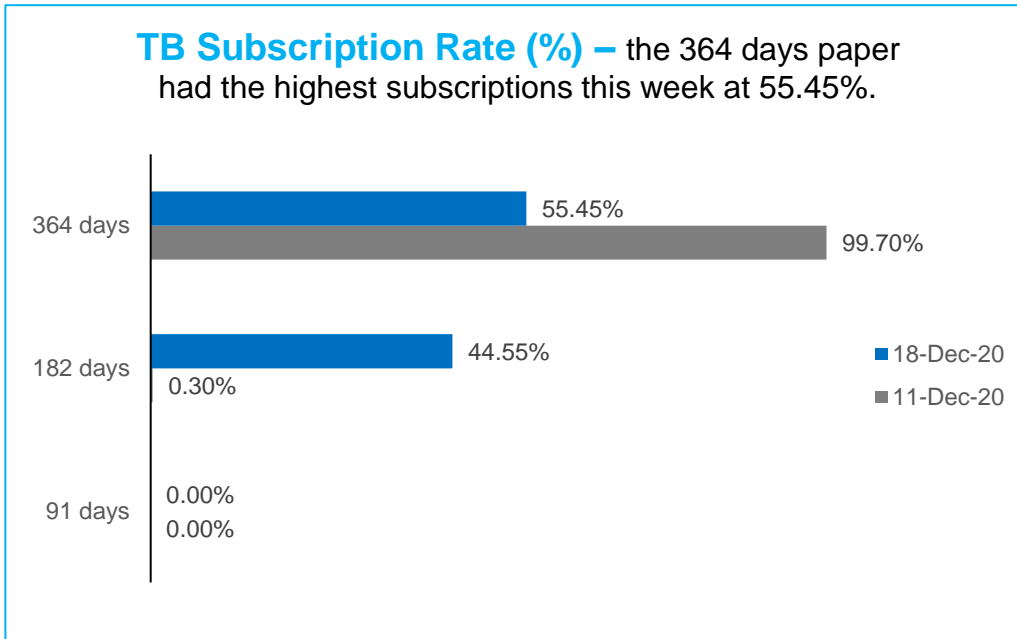


GOVERNMENT SECURITIES (Source: RBM)





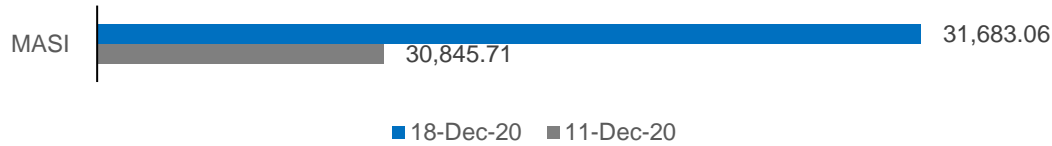
GOVERNMENT SECURITIES (Source: RBM)



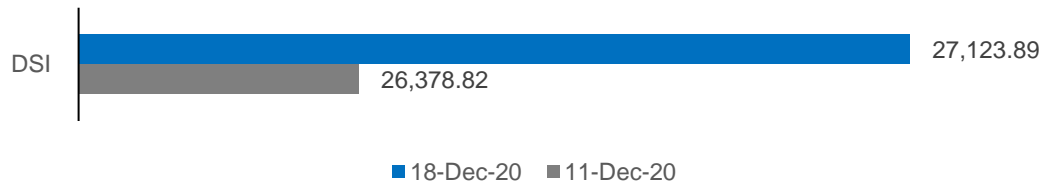


EQUITY MARKET (Source: MSE)

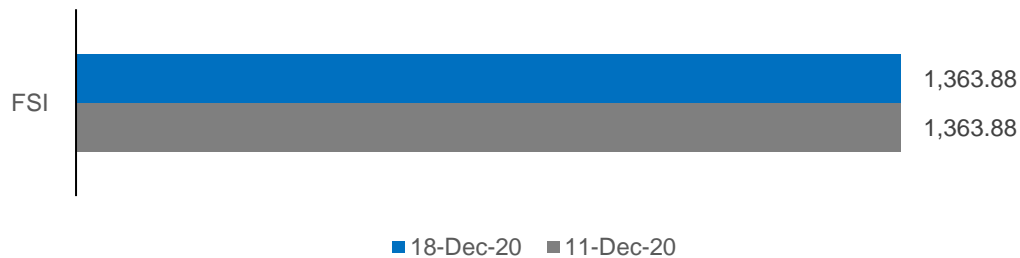
MASI – the stock market was bullish this week as the MASI increased to 31,683.06 points from 30,845.71 points. This was due to share price increases which are listed in the figure below.



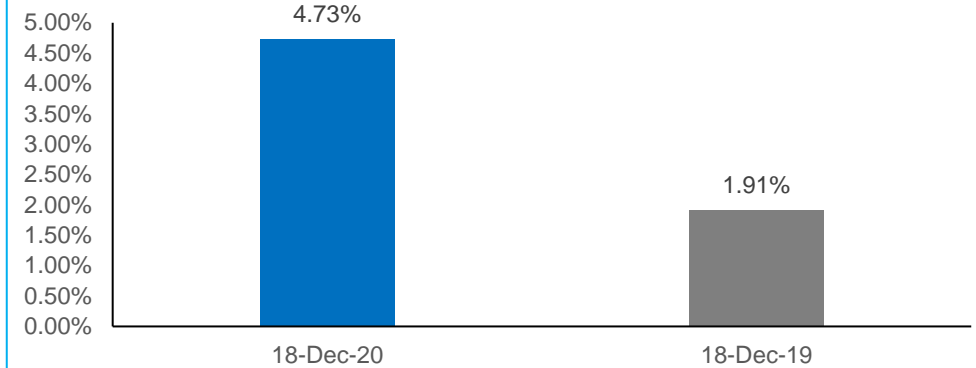
DSI – the DSI increased to 27,123.89 points from 26,378.82 points due to share price increases in FDH Bank, NBM and Standard Bank.



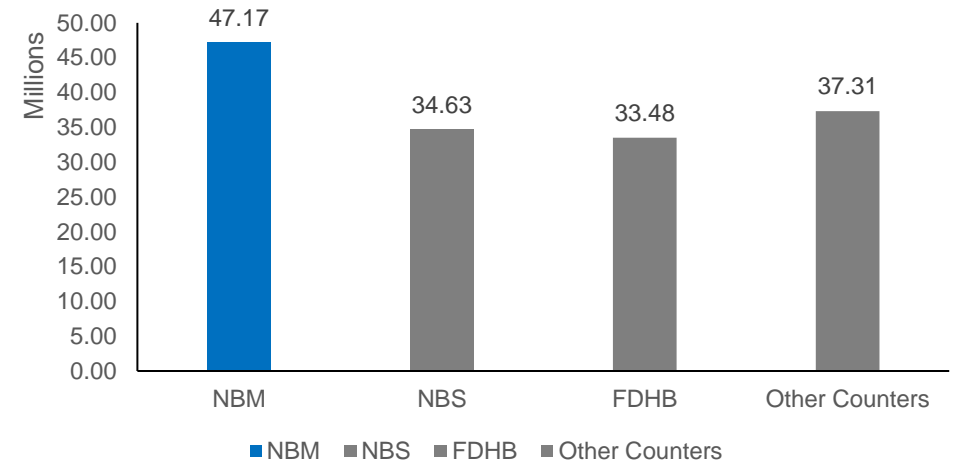
FSI – the FSI was stable at 1,363.88 points this week.



MASI YTD Return (%) – the MASI registered a year-to-date return of 4.73% this year (it was 1.91% last year).



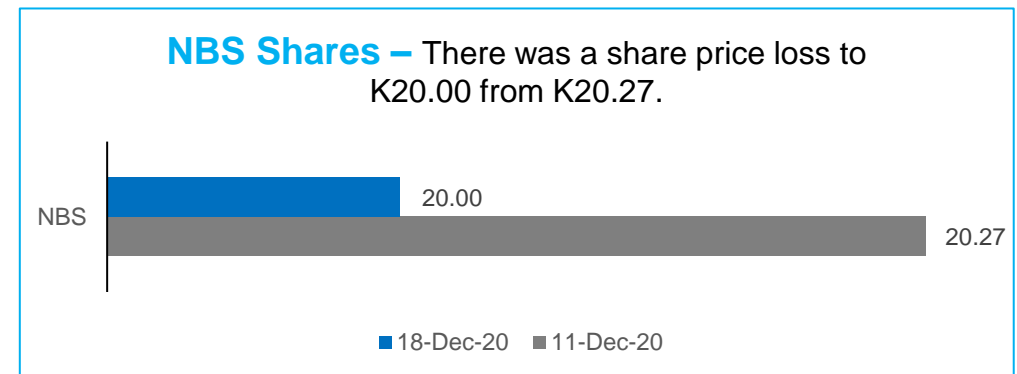
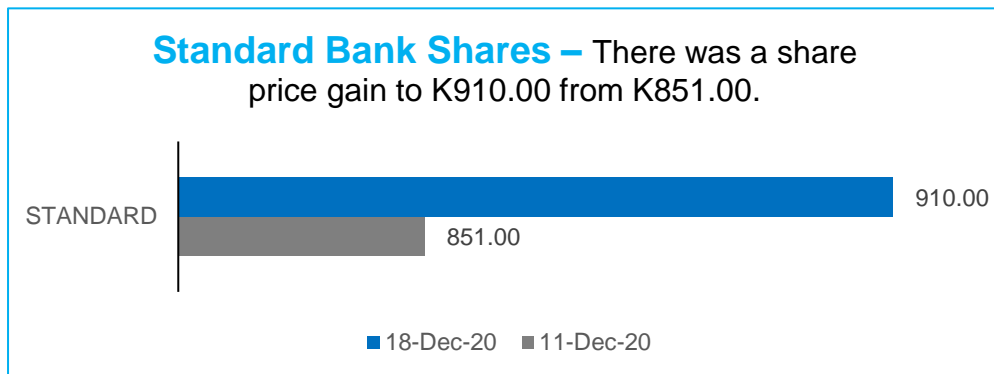
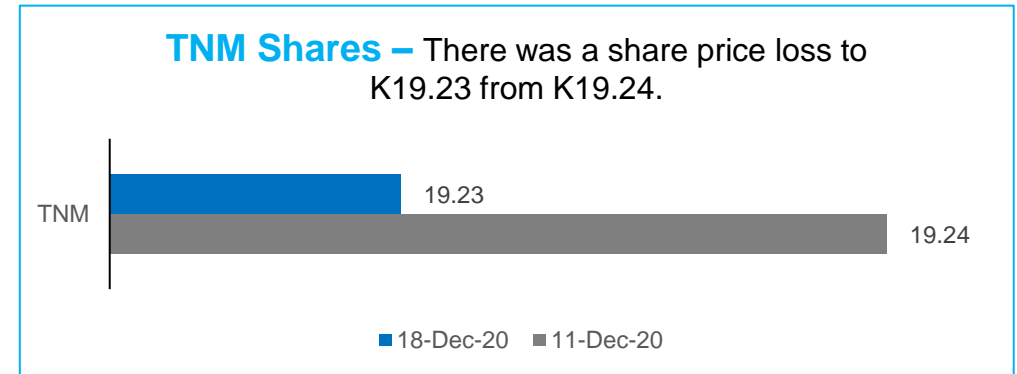
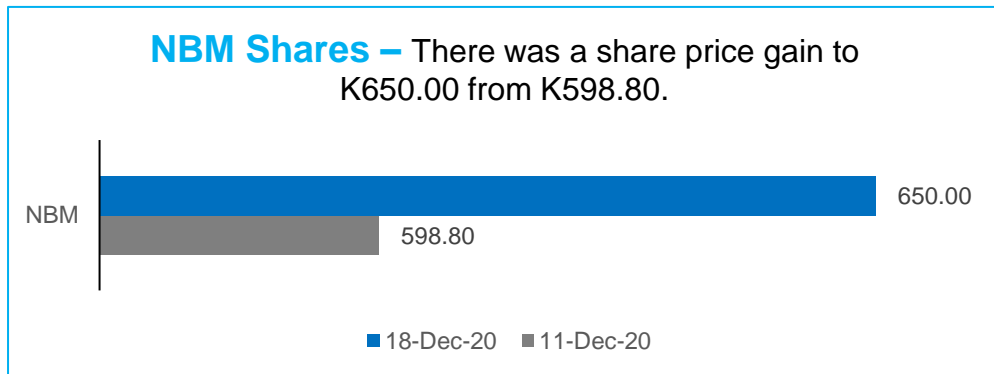
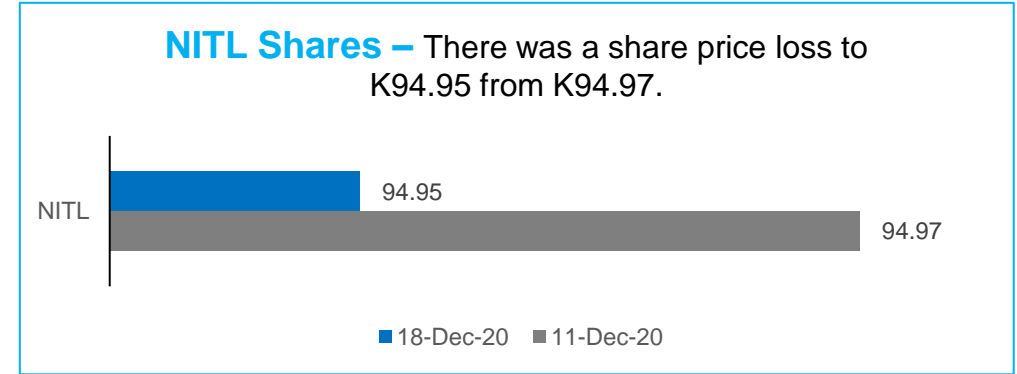
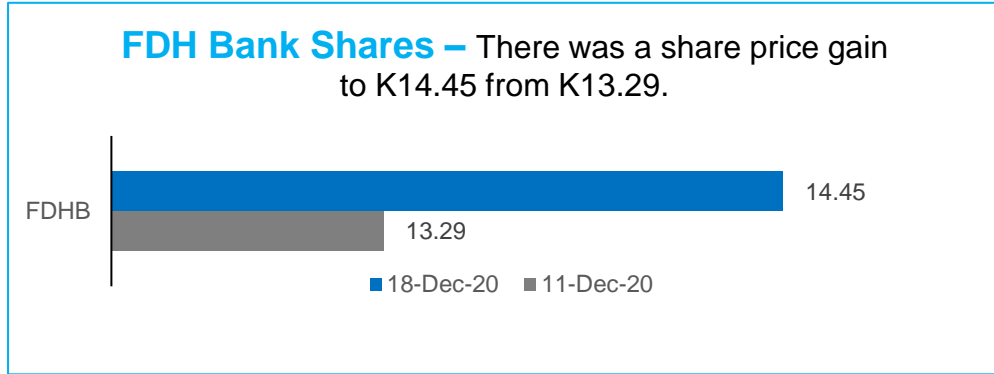
Value of Shares Traded – NBM had the highest value of shares traded at K47.17 million. The total value of shares traded this week was K152.59 million.



MA SI: Malawi All Share Index
DSI: Domestic share Index
FSI: Foreign share Index
OMU: Old Mutual Limited



EQUITY MARKET (Continued)





EQUITY MARKET (Continued)

The other counters closed at the same prices as the previous week. Their closing prices are shown in the table below:

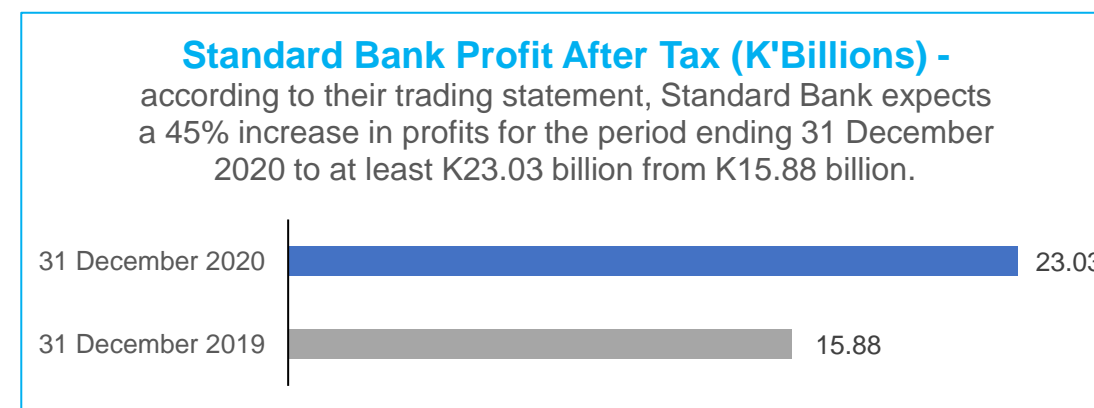
MSE Code	Share Price (K)
	18-Dec-20
Airtel	27.98
BHL	12.94
FMBCH	22.04
ICON	12.29
ILLOVO	80.48
MPICO	21.00
NICO	52.00
OMU	2,199.98
PCL	1,367.10
SUNBIRD	105.00

Corporate Announcements (Source: MSE)

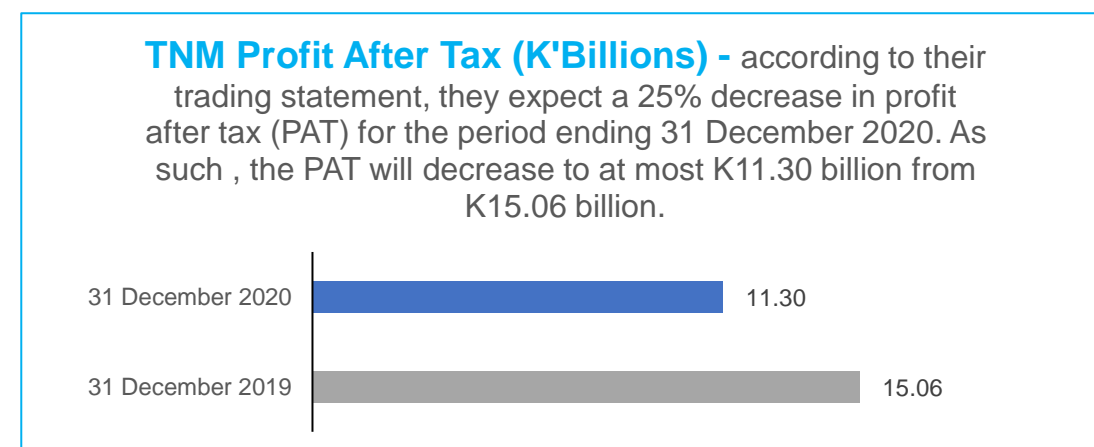
1. FDH Bank Plc issued a cautionary statement informing its shareholders and the general public that members of its majority shareholder, FDH Financial Holdings Limited, are engaged in shareholding negotiations. The negotiations may result in changes in the shareholding structure of FDH Financial Holdings Limited.

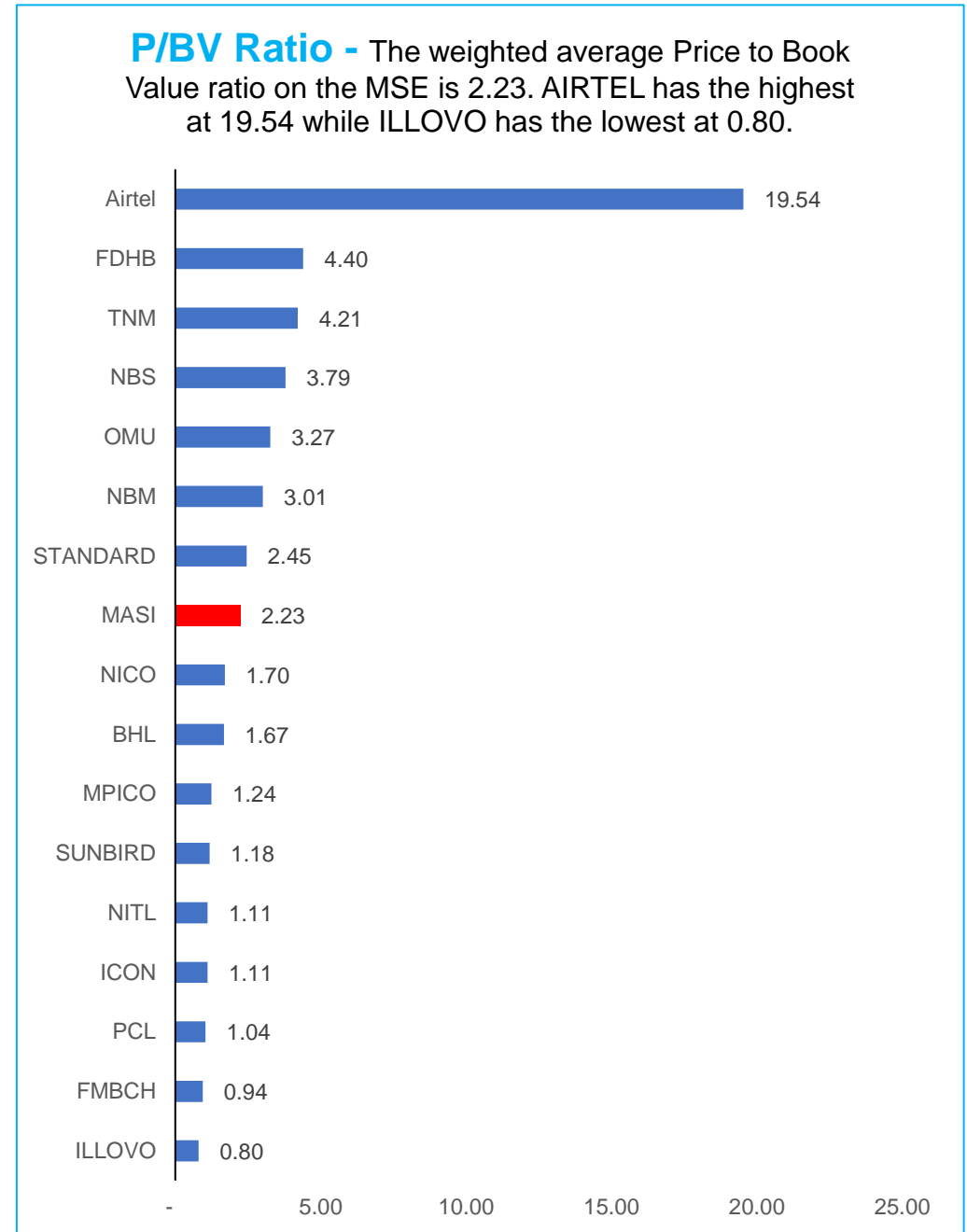
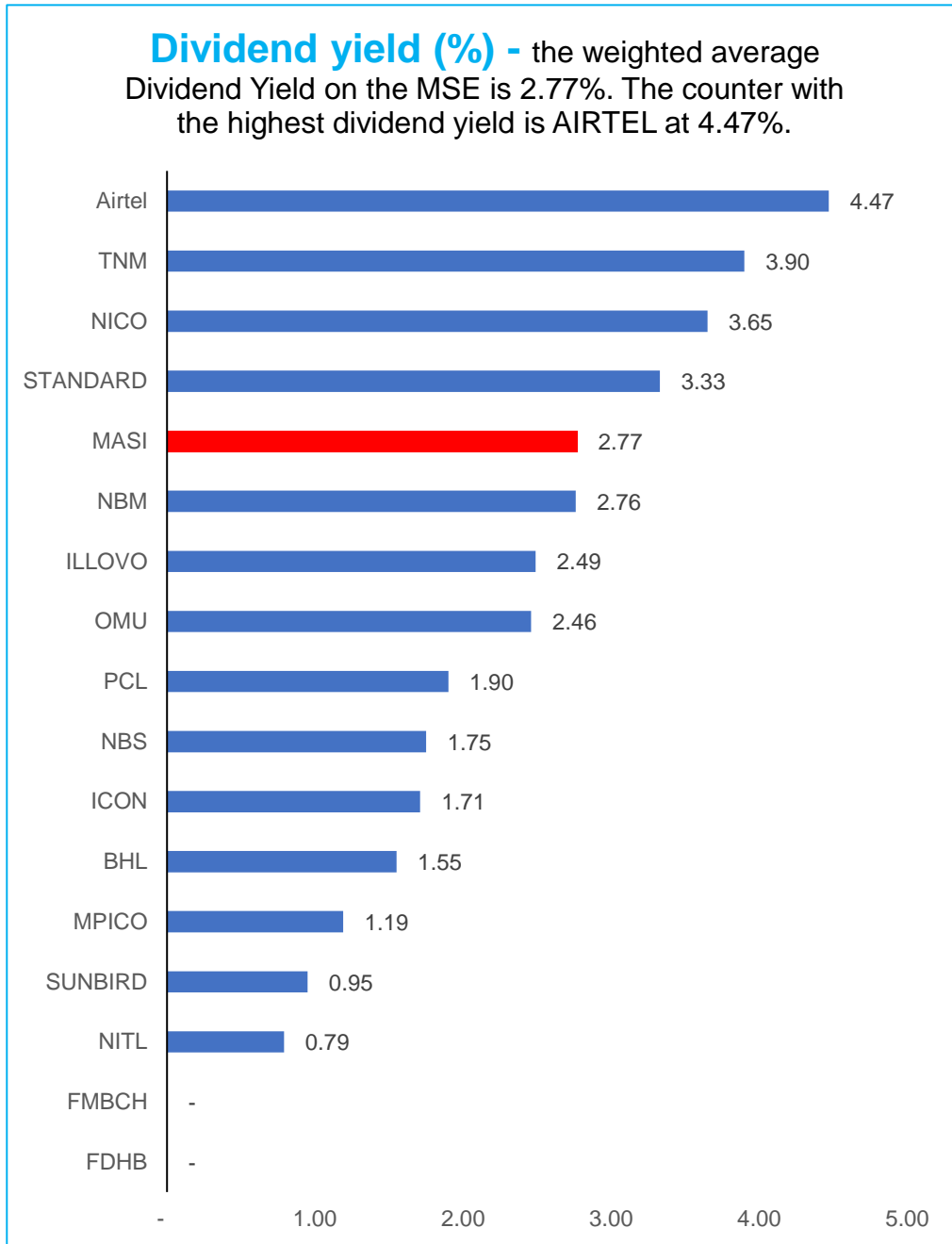
Shareholders are therefore advised to exercise caution in dealing in their shares and consult professional advisors before dealing in their shares until such time as the result of the negotiations is known.

- 2.



- 3.

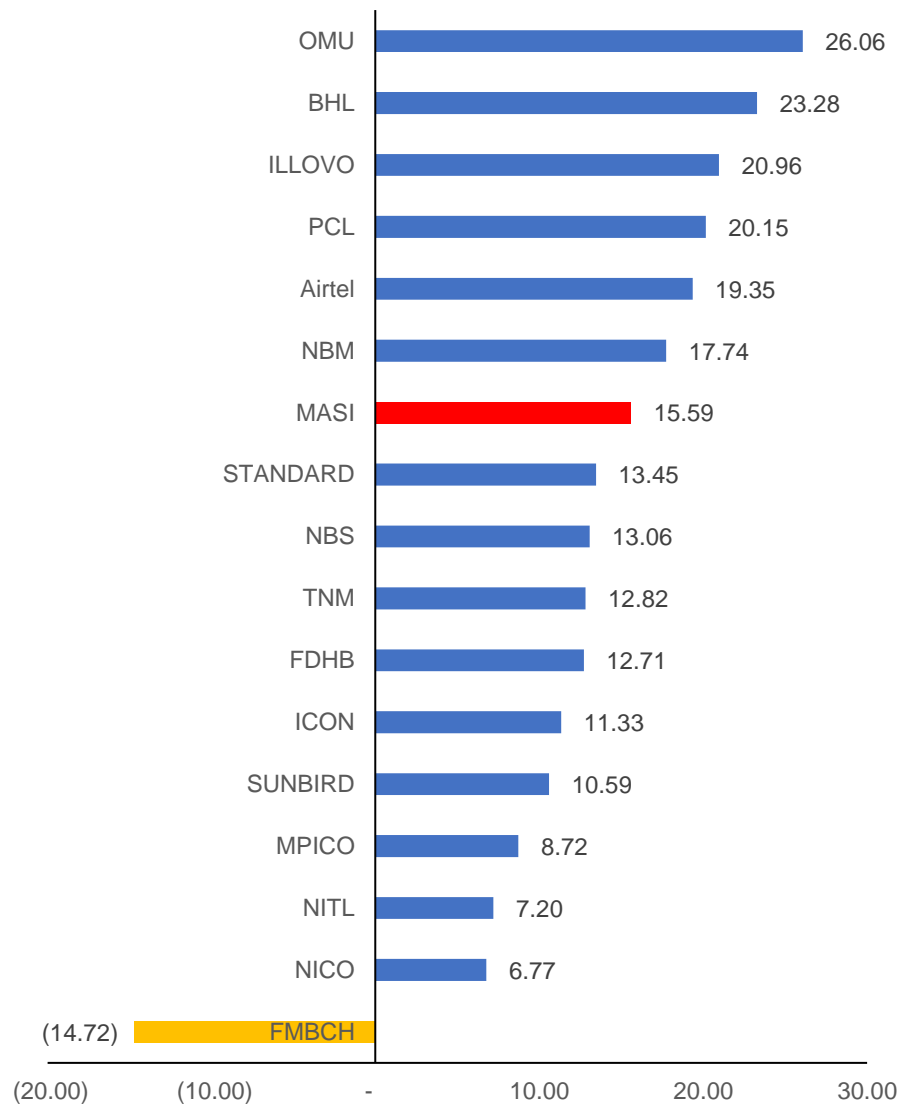




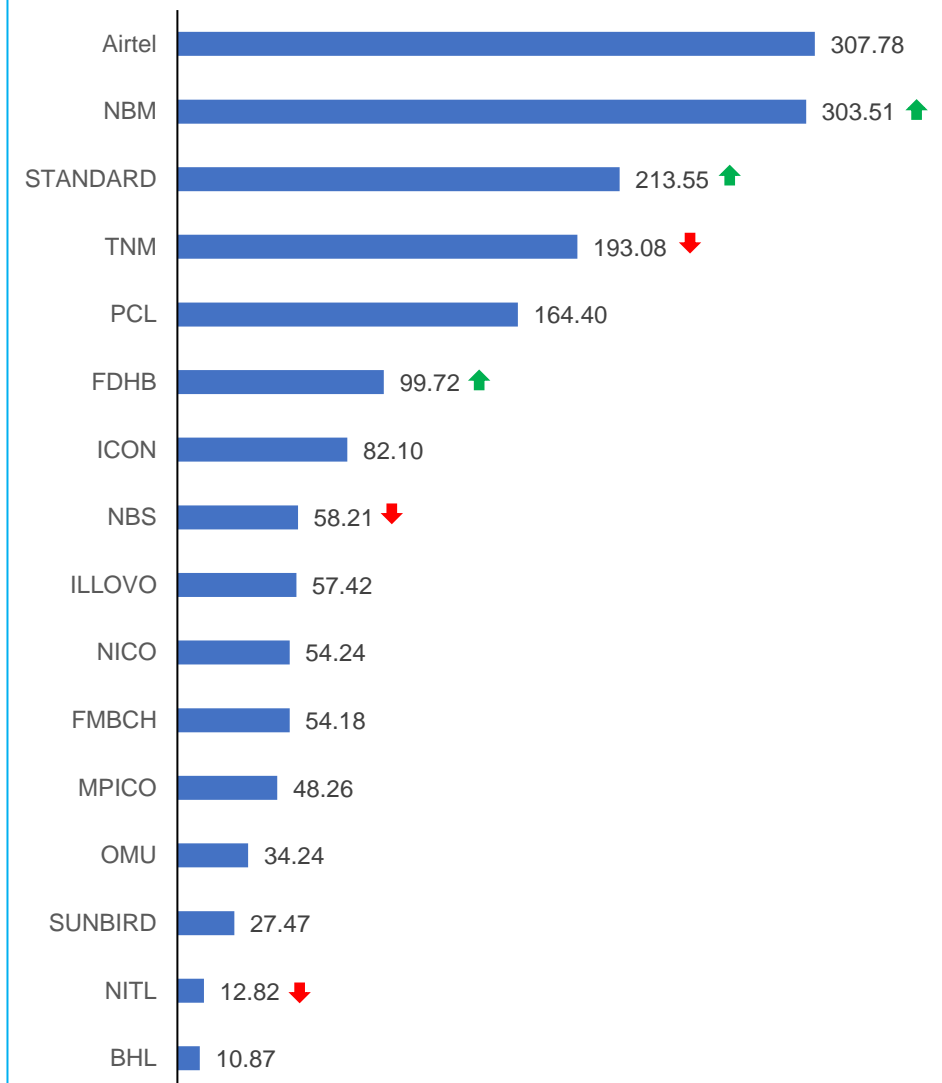


EQUITY MARKET (Continued)

P/E Ratio - the MSE has a weighted average Price to Earnings ratio of 15.59. FMBCH has the lowest at negative 14.72 while OMU has the highest at 26.06.

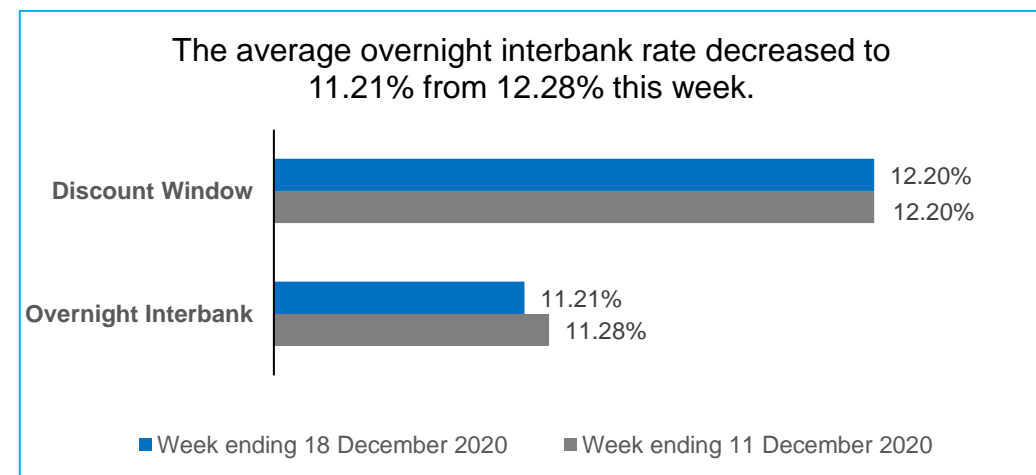
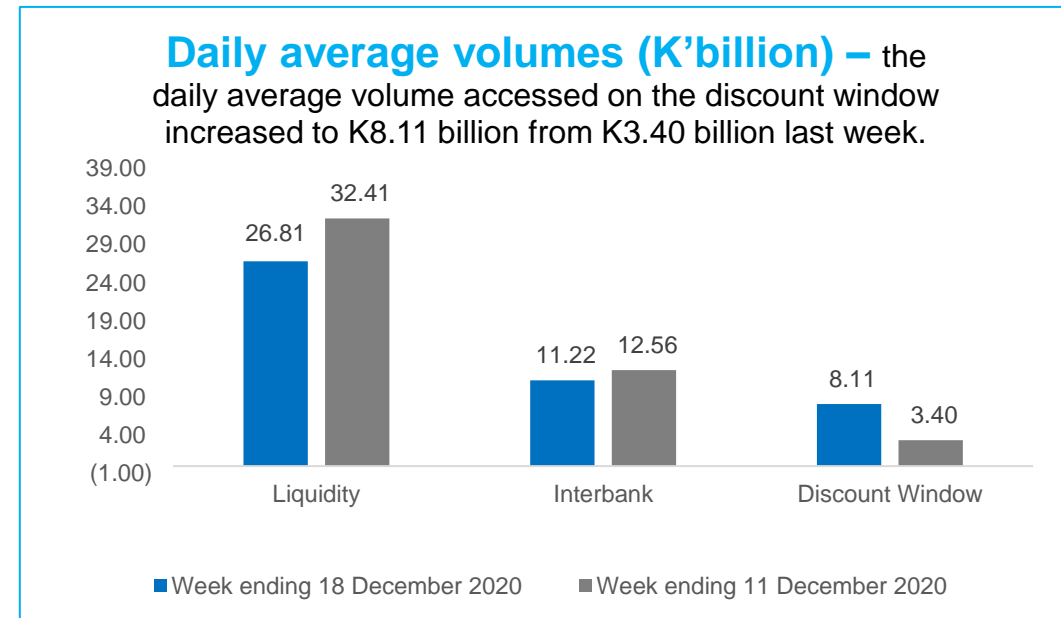
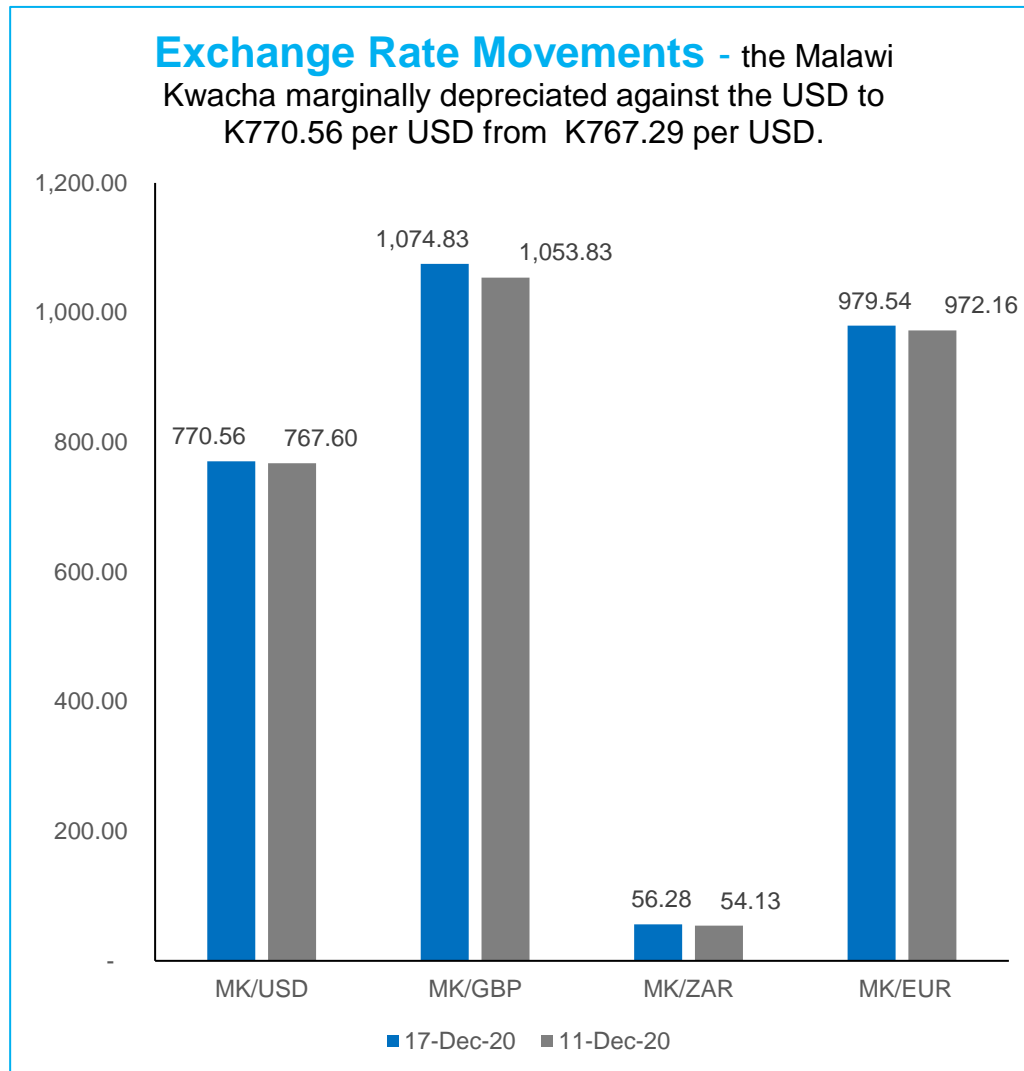


Market Capitalization (K'billion) - Airtel leads the MSE counters with a market capitalization of K307.78 billion. The total market capitalization is K1.72 trillion.



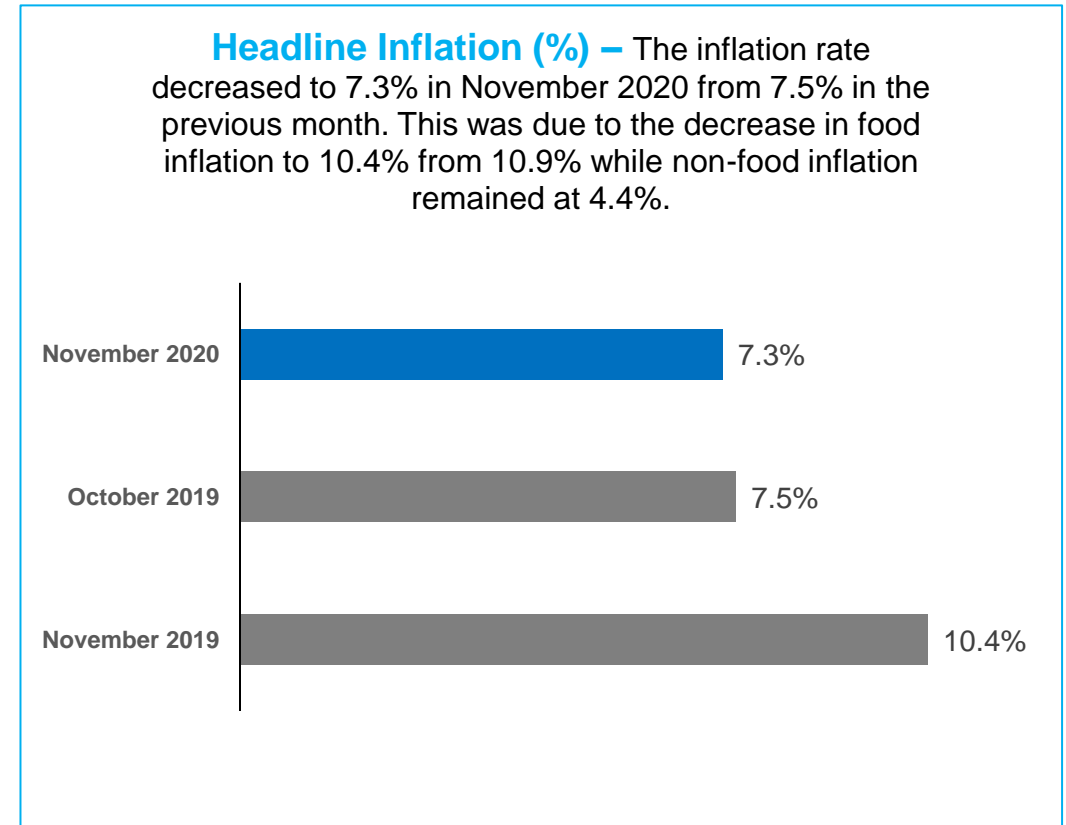
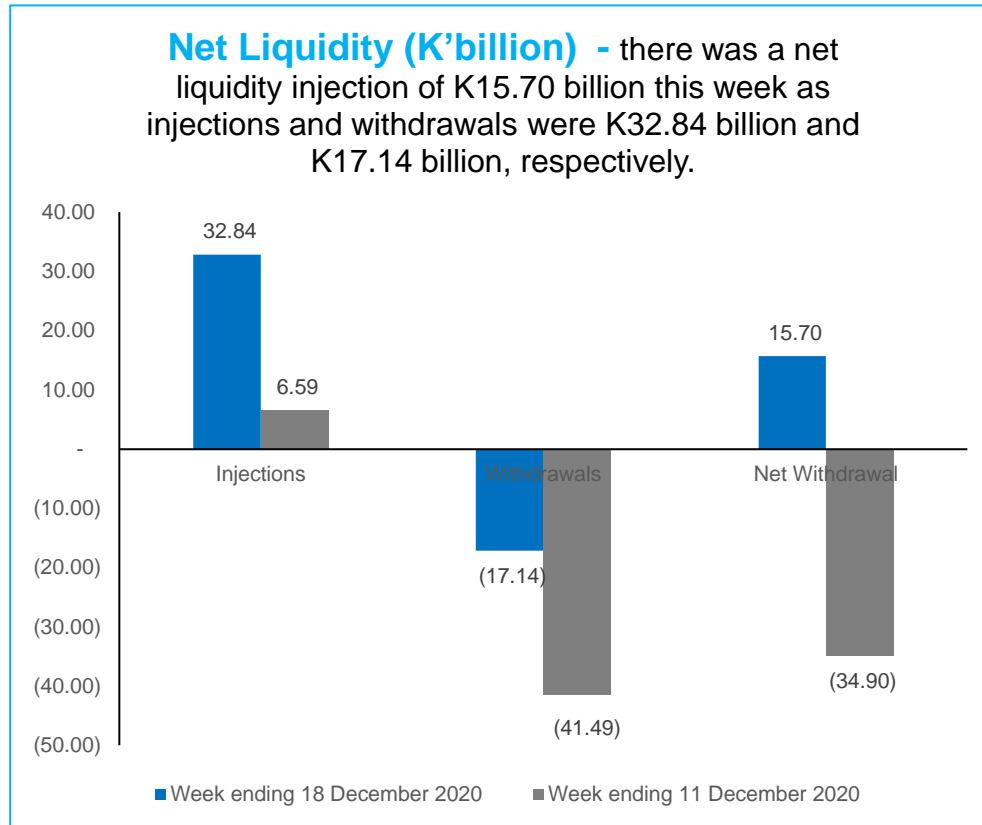


OTHER FINANCIAL MARKET DEVELOPMENTS (Source: RBM)





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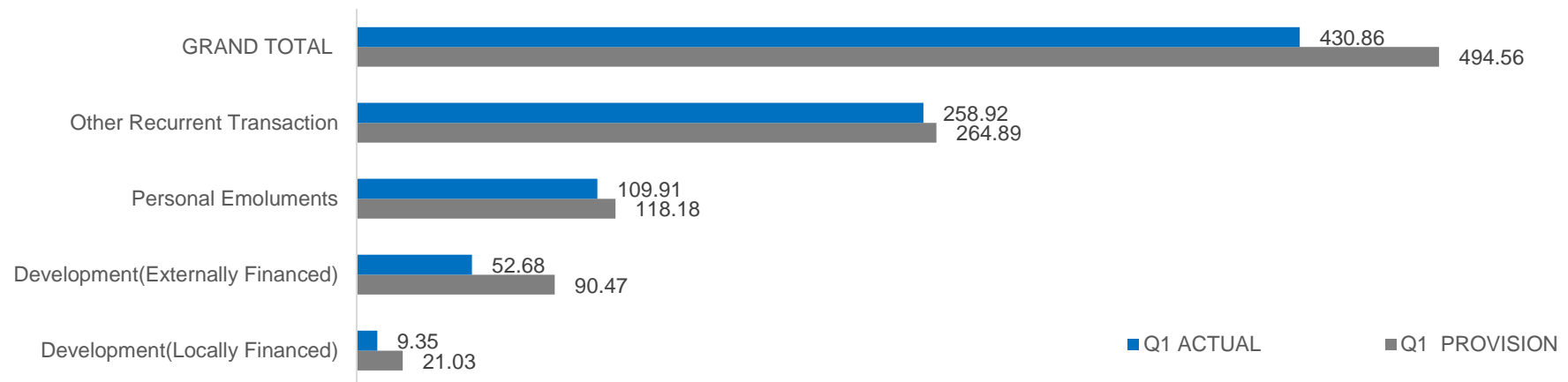




Total Revenue And Grants For Q1 of 2020/21 FY (K'Billion) – the total net domestic revenue of K277.2 billion was raised in Q1 from a target of K304.0 billion. According to the Government, only 91% of the budgeted amount was raised due to the coronavirus



Total Expenditure For Q1 of 2020/21 FY (K'Billion) - a total of K430 billion was spent in Q1 from a budgeted amount of K494.56 billion.





OTHER DEVELOPMENTS

NATIONAL SURVEY ON ACCESS AND USE OF INFORMATION AND COMMUNICATIONS TECHNOLOGIES BY HOUSEHOLDS AND INDIVIDUALS IN MALAWI 2019

The National Statistical Office had a survey in 2019 on Access and Use of Information and Communications Technologies survey which collected information on access and use of ICT services and products such as phone, postal services, digital financial services, cyber security, electrical and electronic waste management and child online protection by the Malawians. Cyber security and electronic waste management are new topics which were not covered in the previous survey. The following are some of the key findings:

- A total of 46% of the households owned a functional radio in Malawi and 71.1% of the population were listening to the radio.
- The total percentage of households across the country with a working television set was 11.6% with local TV stations and 69.8% of people were watching television.
- About 37% of households in Malawi in 2019 owned a mobile telephone which was accessible to every household member.
- A percentage of Malawian population that owned computers in Malawi in 2019 was only at 2.8% which is a very low rate compared to the trend of ICT.
- 2.9% of the Malawian population had access to family postal service in 2019.
- About 32% of individuals had access to digital financial services with 29.5% of individuals having mobile money account.
- About 36% of individuals were aware and confident of their knowledge on cyber security.



OTHER DEVELOPMENTS

Malawi Economic Monitor December 2020. Doing more with less: Improving Service Delivery in Energy and Water. (World Bank)

Global and Regional Context

The global economy is experiencing a sharp recession and the pace of recovery is uncertain.

- a. **Global growth is projected to contract due to the pandemic.** The global spread of COVID-19 has caused an unprecedented shock to the world economy and led to a recession in many countries. The global economy is expected to contract by 4.4% in 2020, with advanced economies shrinking by 5.8% and emerging and developing economies (EMDEs) by 3.3%. There is considerable uncertainty around this estimate and risks continue to be on the downside. The recession will translate into a contraction of GDP per capita, increasing poverty, particularly in economies with weak safety nets.
- b. **The spread of the virus is far from being controlled.** COVID-19 cases remain high across the world and are currently increasing in second waves. There have been promising vaccine developments, but rolling out a vaccine will take considerable time, especially in low-income countries. This has dampened the prospects of a quick recovery. Moreover, despite the recovery in the global trade of goods, the global economy continues to operate below the capacity utilization rate observed in 2019, and trade of services—in particular tourism and travel—remains subdued.
- c. **In the United States and the Euro Zone economic activity is stalling after COVID-19 cases have started to increase again.** In emerging economies (apart from China) the prospects of a rebound are uneven, with non-oil commodity exporters exhibiting signs of a gradual recovery of industrial production and retail sales. China is expected to avoid a recession in 2020 due to major containment efforts and macroeconomic and financial policies to mitigate the pandemic's impact. Growth is projected at 1.9% and exports have rebounded.

- d. **International commodity prices have experienced increased volatility, with oil prices starting to recover since June 2020, but remaining below pre-pandemic levels.** COVID-19 represented a severe shock to global commodity markets. As of April 2020, energy prices had dropped by 60%, metals by 15%, and food prices by 10%. Prices started to rebound shortly after crude oil prices have doubled since their April low due to the Organization of the Petroleum Exporting Countries (OPEC) supply cuts, metal prices recovered following China's industrial activity rebound, and agricultural commodity prices are gaining momentum driven by a strong demand for raw materials. Yet, oil prices are expected to remain subdued (in particular for jet fuel), and prices remain nearly one-third lower than pre-pandemic levels.

COVID-19 has induced Sub-Saharan Africa's first recession in 25 years

1. The COVID-19 pandemic has led to increased poverty, inequality and unemployment in Sub-Saharan Africa.
2. Efforts to slow the pandemic through social distancing have been partially successful.

COVID-19 has slowed growth in Malawi

1. Malawi's economy has been heavily affected, with growth projected at 1.0% in 2020, down from earlier projections of 4.8%.
2. Services and industry sectors have been particularly hard hit, leading to a heavier impact in urban areas.
3. Poverty reduction in Malawi has stagnated in the last 15 years and is expected to worsen with the pandemic.
4. The current account deficit is projected to expand to 19.6% of GDP in 2020, up from 17.8% in 2019.
5. Headline inflation decelerated over the year but is facing seasonal pressure on maize prices.
6. Malawi's fiscal situation deteriorated further in FY2019/20.



OTHER DEVELOPMENTS

Malawi Economic Monitor December 2020. Doing more with less: Improving Service Delivery in Energy and Water. (World Bank) (Continued)

In the medium term, the new Government has an opportunity to implement measures to boost economic recovery and build resilience. Measures in the following areas will help Malawi to return to 5 to 5.5% growth, and support incomes and job creation:

First, the Government can strengthen the foundations for macro stability and growth:

- Malawi needs to strengthen fiscal sustainability and reduce domestic debt to create a strong foundation for growth.
- Strengthening public financial management (PFM) and governance can improve the use of limited public resources.
- Strengthening financial oversight and transparency of State-Owned Enterprises (SOEs) is needed to reduce fiscal risks and improve service delivery.

Second, it can support diversification, in agriculture and non-agriculture sectors, to increase incomes and resilience.

- Adopting predictable and transparent policies would support diversification and commercialization in the agriculture sector.
- The Government needs to address issues that hinder diversification of the economy outside of agriculture.

Third, the Government can strengthen systems to support the vulnerable and increase resilience.

- Developing a shock-sensitive safety net system can help mitigate the impact of the current pandemic and future shocks.

Doing more with less: improving service delivery in energy and water

- Malawi suffers from inadequate access to and reliability of energy, water and other infrastructure services, which are costly for growth, health outcomes and poverty reduction
- Malawi underinvests in energy and water supply due to a range of issues, including a lack of fiscal space and inefficiency of SOEs.
- SOEs responsible for delivering energy and water infrastructure are performing poorly and lack the resources to make adequate investments.
- While the country is currently in the middle of fighting the pandemic, it is critical to strike the balance between delivering both short- and long-term gains.
- The new Government has already committed to undertake needed reforms.

The Government can take several steps to improve infrastructure investments and service delivery in energy and water.

Recommendations on how the new administration can deliver quality services despite limited fiscal space—“doing more with less”—for the energy and water sectors are organized along two pillars:

1. Upgrade the Public Investment Management (PIM) framework and integrate it with the Private Public Partnership (PPP) program
2. Ensure SOEs are more efficient and creditworthy, thereby able to increase investments in existing and new infrastructure and minimize their fiscal drain

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