

THE MARKETDIGEST

ISSUE 6 July 2017

NMB
Close to you





MARKET DIGEST

- 01 **Economic Analysis:**
THE ROAD TOWARDS INDUSTRIALIZATION
- 02 **FX Trend:**
A QUIET QUARTER
- 04 **Inflation Trend:**
LOWEST SINCE MARCH
- 05 **Interbank MM Activities and Rates:**
HIGH LIQUID MARKET
- 06 **Government Securities Trend:**
IMPROVED MARKET APPETITE IN BILLS
- 07 **Treasury Bonds:**
OVERSUBSCRIBED AUCTIONS
- 09 **Equity Market Analysis:**
AMENDMENT OF THE ELECTRONIC AND POSTAL
COMMUNICATIONS ACT (EPOCA)
- 10 **Tanzania Budget 2017/2018**

Economic Analysis: THE ROAD TOWARDS INDUSTRIALIZATION

By Fredrick Mbuya, Trading Desk

Tanzania's economic performance continues to be among the highest in the African continent, with a real GDP growth of 7.1% expected in 2017 up from the 7% recorded in 2016. According to IMF Economic Outlook database, Tanzania ranks as the second fastest growing African economy just behind Ivory Coast (7.9%) and ahead of Senegal (6.6%), Djibouti (6.5%) and Ethiopia (6.5%) who complete the top five list. Tanzania's economic performance continues to rank among the highest in the region with a real GDP growth rate that has consistently outpaced its East African Community (EAC) peers. However, expected economic headwinds in China are likely to intensify and a modest recession in the US could weigh on global trade, market sentiment and inflows of foreign investment in the country hence moderate the expected real GDP growth.

According to Bank of Tanzania, the overall balance of payments significantly improved to a surplus of USD 636.7 million compared to a deficit of USD 183.9 million in the previous year. Total export value of goods and services declined by 6% to USD 8,753.3 million. The impact of this decline was however been offset by a larger 16% decrease in the total import value due to fall in global oil prices which accounts for the largest share in goods import basket. Thus, trade balance will continue to be firmly in deficit given country's structural dependence on imports.

Fiscal deficit will remain broadly unchanged at 4.5% of GDP with a potential to contract as tax base expands. The government will increase spending by around 7.3% and reduce deficit to 3.8% of GDP on the back of implementation of some large-scale projects in the energy and transport sectors such as an inter-government agreement between Tanzania and Uganda to build a US\$3.55bn crude oil pipeline from the oil-rich Lake Albert in Uganda to the Tanzanian port of Tanga. This and other port development projects will support growth in the construction sector, while more capacity and better services at the country's ports are expected to drive entrepôt trade over the medium term. All of these projects are expected to change the economic landscape of Tanzania if successfully implemented, and will place Tanzania at the forefront of African Industrialization.

In addition, inflation rate continues to remain relatively low at 5.4% recorded in June, the current account deficit narrowed by 50.1% with gross reserves sufficient to cover four months of imports. The shilling has also been stable in the 2nd quarter of 2017 as it was the case in the same quarter in 2016 due to subdued dollar demand.

TREASURY

Second Floor, Head Office
Ohio/Ally Hassan Mwinyi Road
P.O.Box 9213
Dar Es Salaam
Tanzania

For enquires: TreasuryFO@nmbtz.com

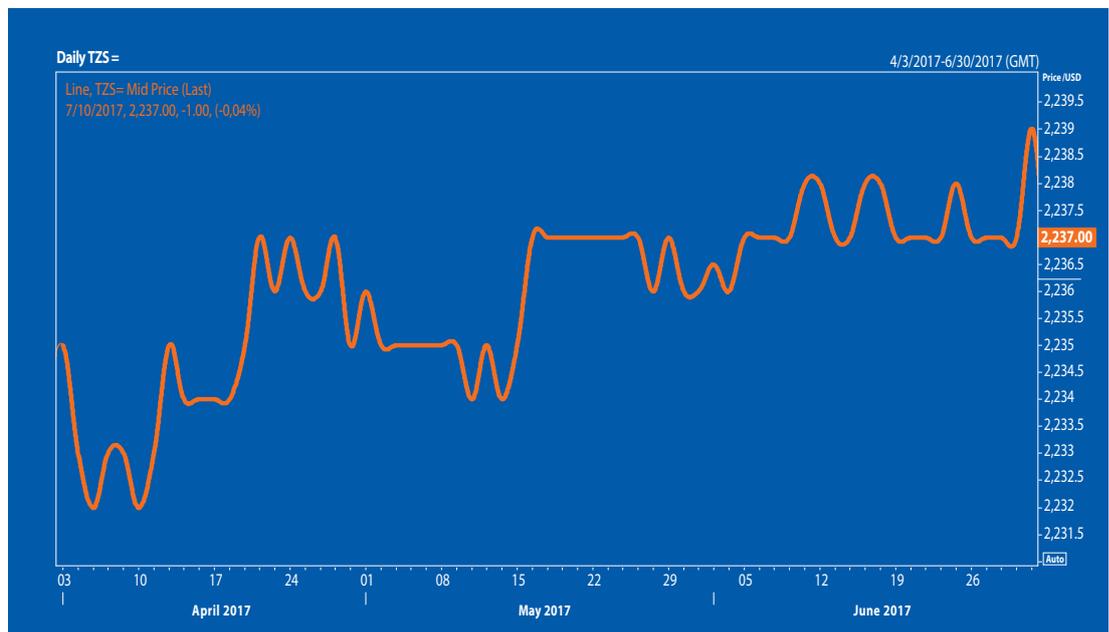
Fx Trend: A QUIET QUARTER

By Agnes Mayoro, FX Trading Desk

The local currency pair traded sideways during the quarter under review opening at 2235Tshs to the dollar and traded three shillings below its open on the back of subdued demand as credit to private sector and money supply growth slowed. However demand for dividend payments saw the pair trade to the high of 2239 where the quarter closed at. Comparatively, during this quarter, the shilling depreciated by only 0.2% against a depreciation of 2.4% the previous quarter.

Despite a very liquid local currency market, volumes traded in the Interbank Foreign Exchange Market dropped to USD 441Mio from USD 466Mio the previous quarter. This is an outcome of slump in business confidence and consequently activities across different sectors of the economy both imports and exports were relatively low.

Agri season is set to kick off in the coming quarter alongside tourism. We expect inflows of dollars from the exports of Agri commodities however, the shilling will likely to moderately appreciate given the Central Bank's participation in the Interbank Foreign Exchange Market on both sides of the market to smoothen out volatility as well as liquidity management.



Source: Reuters

	Open	Low	High	Close
Q2 2017	2235	2232	2239	2239
Q1 2017	2181	2181	2260	2234

TRADE FINANCE

We value your business and that is why we make it our business to support your cash flow needs.

PAYMENT FACILITATION



TRADING



RISK MITIGATION



Contact us today and get the right solution to optimize your business operation via **0800 002002**

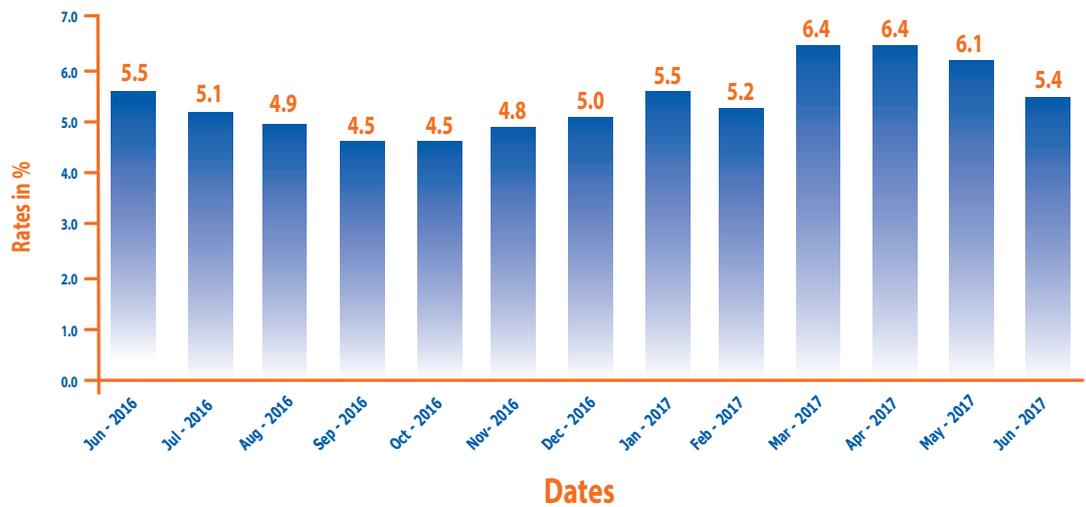
Inflation Trend: LOWEST SINCE MARCH 2017

By Catherine Masanje, ALM & FI Desk

The annual headline inflation in June 2017 decreased to 5.4% YoY from 6.1% YoY in May 2017. The decrease in headline inflation explains that the speed of price change in commodities in the year ending June 2017 has further decreased compared to the speed of price change recorded in May 2017. This drop in inflation is a result of slowdown in food and non-alcoholic beverages inflation.

This headline inflation remained at single digit throughout the period from June 2016 to June 2017 consistent with the monetary policy stance, and assisted by prudent fiscal operations, subdued global oil prices, improvement in domestic power generation and stability in the value of Tanzanian shilling against major currencies. According to the EIU, inflation is projected to remain around the medium term target of 5 -8%.

Inflation Trend



Source: National Bureau of Statistics

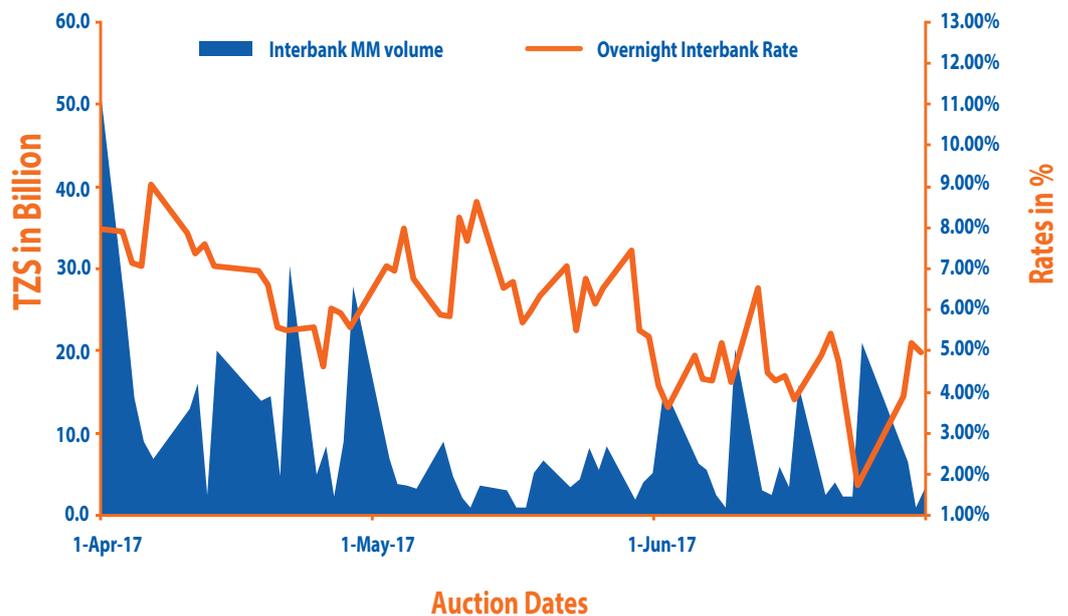
Interbank MM Activities and Rates: HIGH LIQUID MARKET

By Catherine Masanje, ALM & FI Desk

Money markets activities in the quarter under review were subdued by 50% in comparison to the previous quarter. Total volumes traded amounted to TZS 455 billion in Q2 lower from TZS 910 billion traded in Q1 of 2017 and quite lower if compared to Q2, 2016 whereby volume traded were TZS 2.99 trillion. This drop in the activities in the overnight market indicate a very liquid money market.

As a result of a very high liquid market, overnight weighted average rates exhibited a declining trend with lows of 2.05%pa and highs of 9.36%pa. This liquidity was partly contributed by the government spending ahead of the end of the financial year, as well as reduction of the Statutory Minimum Reserve by the Central Bank from 10% to 8% on non central Government and public sector deposits.

Interbank Money Market Activities



Source: Bank of Tanzania

Government Securities Trend:

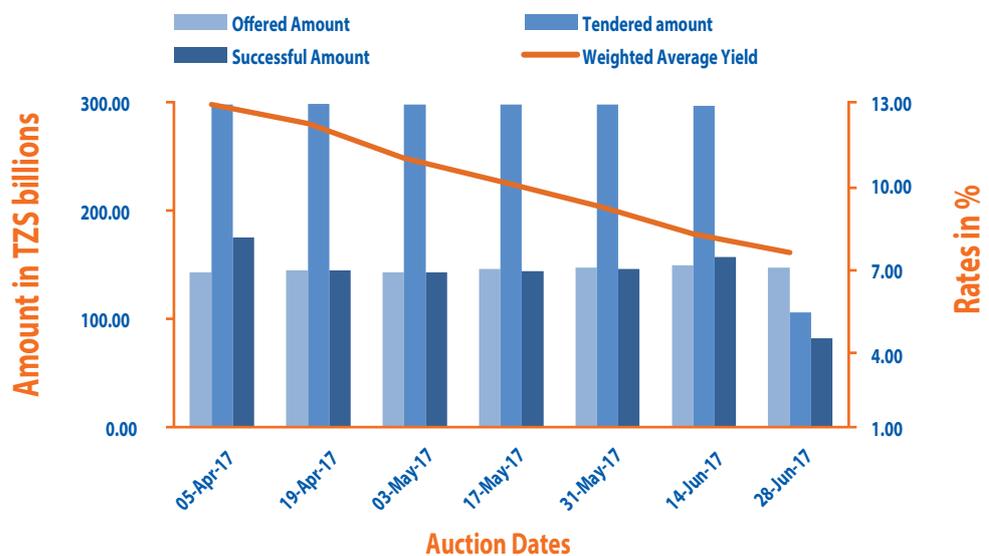
By Samira Saleh, ALM & FI Desk

Treasury Bills: IMPROVED MARKET APPETITTE IN BILLS

In the second quarter of 2017; The Central Bank accepted only 2% more than what it offered whilst the tendered amount was 64% more than what was offered. This resonance the liquidity currently in the market coupled with increased Non-Performing Loans (NPLs) which made banks shy away from extending credit to businesses. Thus, investors were left unsatisfied while trying to lock themselves in these short term debt instruments before the rates dropped further down to single digits.

The overall weighted average yield for treasury bills declined by 715 bps from 14.48% pa in Q1 to 7.33% pa in Q2. In contrast to the same quarter last year where overall yield significantly declined by 795 bps and stood at 15.28% pa in June 2016.

Treasury Bills Market



Q2 TREASURY BILLS AUCTIONS SUMMARY

Amount Offered (TZS Billion)	975.70
Total tendered (TZS Billion)	2,691.27
Successful Amount (TZS Billion)	955.47
Current Overall Weighted Average Yield	7.33%

Source: Bank of Tanzania

Treasury Bonds: OVERSUBSCRIBED AUCTIONS

By Catherine Masanje, ALM & FI Desk

1. Primary Market

There was a high appetite of bonds in the primary market by the investors. However, the amount taken was less than what was tendered in all auctions in the quarter under review. Total offered amount in all auctions stood at TZS 659.70 billion vis-à-vis TZS 1,873.98 billion tendered and TZS 771.06 billion which was successful. Demand for Treasury bonds in Q2 slightly rose although particularly in the tenors between 5-10yrs. This indicates investors preferred short term securities. The weighted average yields in all tenors consequently decreased in comparison to their respective previous auctions. This aligns with the ongoing government's effort to reduce borrowing costs and still be able to support its budget.

TREASURY BONDS AUCTIONS SUMMARY AMOUNT IN (TZS BILLIONS)					
	2-year (7.82%)	5-Year (9.18%)	7-Year (10.08%)	10-Year (11.44%)	15-Year (13.50%)
Amount Offered	128.50	210.20	138.96	111.54	70.50
Total tendered	313.55	579.67	412.65	401.26	166.86
Successful Amount	128.50	322.06	138.46	111.54	70.50
Current Weighted Average Yield	16.2203%	13.0669%	16.4813%	14.7580%	18.8809%

Source: Bank of Tanzania

2. Secondary Market

The quarter under review saw a Q-o-Q increased turnover in the secondary bond market by about 2.09 % partially owing to the open of capital markets to East African investors. A total of TZS 234.03 billion worth of Treasury bonds exchanged hands in Q2 2017 rising from TZS 229 billion recorded in Q1 2017 and TZS 201.35 billion in Q2 2016. This is mainly attributed to a growing investors' awareness on financial markets together with the investors' appetite that was experienced in both short and long term government securities during the quarter. Most of institutional investors preferred long term tenors (5yr, 7yr & 15yr) to short term tenors.

Below is the summary of Government bond traded in the secondary market under the period of review.

GOVERNMENT BONDS TURNOVER TZS BILLIONS						
Tenor (Years)	2	5	7	10	15	
Amount traded	3.52	63.44	55.61	39.93	71.53	234.03

Source: Dar es Salaam Stock Exchange

EVENT CALENDER

Below government securities will be issued in the coming quarter, however BOT has a mandate to change the calendar accordingly. Inflation Data is released by the National Bureau of Statistics.

Date	Event
5-Jul-17	15-year Treasury Bond Auction
10-Jul-17	June Inflation Data Release
12-Jul-17	Treasury Bills Auction
19-Jul-17	2-year Treasury Bond Auction
26-Jul-17	Treasury Bills Auction
2-Aug-17	7-year Treasury Bond Auction
9-Aug-17	July Inflation Data Release
9-Aug-17	Treasury Bills Auction
16-Aug-17	10-year Treasury Bond Auction
23-Aug-17	Treasury Bills Auction
30-Aug-17	5-year Treasury Bond Auction
6-Sep-17	Treasury Bills Auction
11-Sep-17	August Inflation Data Release
13-Sep-17	15-year Treasury Bond Auction
20-Sep-17	Treasury Bills Auction
27-Sep-17	2-year Treasury Bond Auction

Equity Market Analysis: AMENDMENT OF THE ELECTRONIC AND POSTAL COMMUNICATIONS ACT (EPOCA)

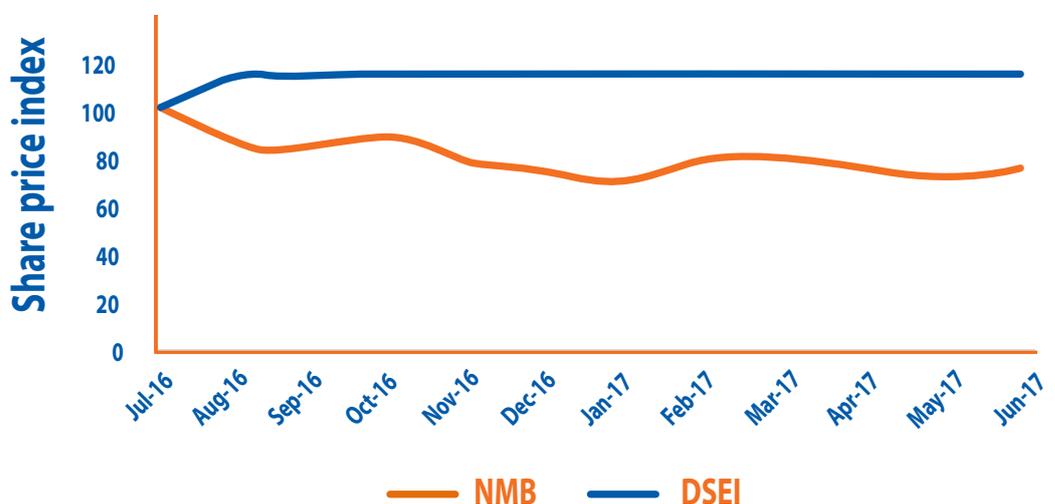
By Caroline Yambesi, Strategy Office

In the second quarter of 2017, we witnessed the extension of Vodacom’s IPO by an extra three weeks in May, following the issue’s undersubscription. Even with the extension however, Vodacom Tanzania still did not manage to raise its initial IPO target of TZS 476bn. In early July it was announced that the offer would be extended for the second time, which will hopefully yield better results than before. Ian Ferrao (Vodacom’s CEO), expressed in a recent interview that he was still optimistic about the IPO issue and that he also sees opportunities for future collaboration in Tanzania’s telecom space.

Coincidentally, the Government has recently amended the Electronic and Postal Communications Act (EPOCA), 2010 to allow for foreign investors to participate in IPOs in Tanzania. Many market participants view this as a positive move and believe that it will not only enable foreign investors to buy up the remaining amount from Vodacom’s IPO but also allow them to participate fully in other upcoming Telecom IPOs.

On the secondary market side, activity levels at the Dar es Salaam Stock Exchange (DSE) have fluctuated throughout the quarter, with some trading days better than others. A total market capitalisation of TZS 19.3 trillion was recorded at the end of June, a 4 % decrease from TZS 20.1 trillion at the end of the first quarter.

Share price movement

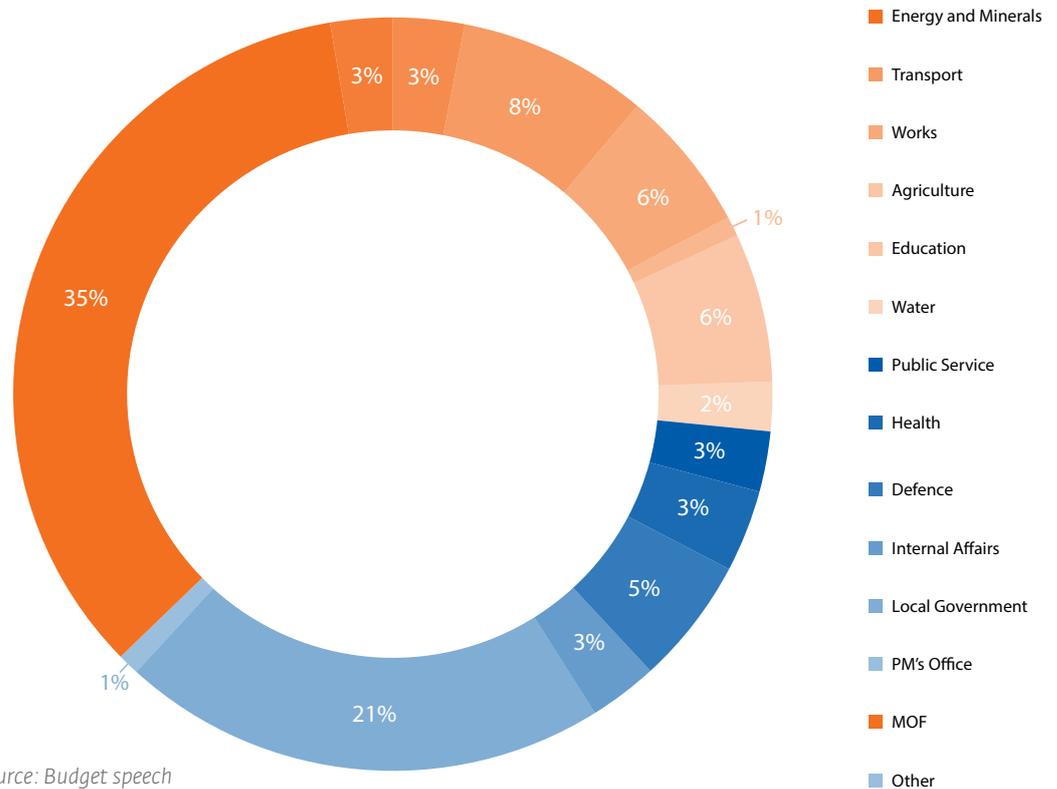


Tanzania Budget 2017/2018

By: Upendo Mwesiga, Treasury Sales Desk.

In June 2017, the government of Tanzania released its TZS 31.71 Trillion budget for the financial year 2017/2018. The government continues to allocate funds in priority areas to ensure effective execution of the Annual Development Plan (ADP) as in the chart below. The prime focus continues to be on infrastructure, energy and minerals, education, health and water which collectively have been allocated 32% of the total budget. This affirms government's plans for capital spending in infrastructure projects such as: the construction of new standard gauge railway line and refurbishing the national air carrier and upgrading port services to support industrialization and spur the country's emergence as a regional trading hub.

The following chart illustrates the government expenditure for 2017/2018



Source: Budget speech

The fifth government aims to reduce unnecessary expenditure and loopholes on the tax payment process by emphasizing on electronic payment systems. The government has launched Electronic Revenue Collection System (e-RCS) - as a new system for revenue collection to be used with effect from this financial year. In addition, government will use the already in place Government Electronic Payment Gateway System in all the Ministries, Government Departments and Institutions. Furthermore, an emphasis on continuous enforcement for the use of Electronic Fiscal Device (EFDs) by all businesses. Significant effort has also been directed towards bringing the informal

sector into the tax net, increasing contribution of property taxes and formalizing land ownership to facilitate taxation. Thus all these measures will simplify tax collection and increase the portion of domestic revenue to 62.9% of the government budget reducing dependency on donor funding. Consequently, the viewpoint is set for a positive fiscal policy as the budget hinges on increasing revenue, with the government projecting that tax income will rise to 14.2% of GDP in 2017/18.

In addition, the government will continue to sustain financial discipline in order to realize the value for money by ensuring all commercially viable entities are operating profitably without depending on government subvention. Furthermore, all contracts with government entities will be expressed in Tanzanian shillings to minimize government exposure to fiscal risks, unless contracts involve foreign transactions. Last but not least, continuing a central theme of government policy to crackdown on tax evasion in order to drive revenue growth.



LONDON



NEW YORK



PARIS



BEIJING



TOKYO



JOHANNESBURG

**Buy and sell Forex at market
beating exchange rates and
make your transfers within**

1 Hour

- Buy and sell foreign currency in USD, EUR, GBP
- Get access to over 150 branches
- Genuine foreign currency

For more information, visit your
nearest branch or call 0800 002 002



Terms and conditions apply.