Market Digest

Issue 12-2019

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Economic Analysis:

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Tanzania's economy forecasted to remain stable

Global economic growth in the world at large is expected to edge down slightly over the next two years as financing conditions tighten and trade and investment remain moderate. Tanzania's economy has seen steady growth and is projected to have a robust economic growth in 2019. According to African Development bank, the country is forecasted to experience a growth rate of 6.9 percent in 2019 representing one of the best performer's in the East African region. Public investment, particularly the ongoing implementation of large infrastructure projects is likely to boost the country's GDP.

The government collected TZS 7.99 Trillion as domestic revenue in the first half of the 2018/19 budget marking a growth of 2.01 percent from 7.83 Trillion collected in the corresponding period in the 2017/2018 budget. This growth is attributed to the government's move to make collections through GEPG and the Taxman's strategy to educate tax payers. Government expenditure amounted to TZS 10.41 Trillion out of which recurrent expenditure was TZS 8.29 Trillion and TZS 2.12 Trillion was for development.

The country's balance of payments, registered a deficit of USD 753 million in November 2018 compared to a surplus of USD 1,749.8 in the corresponding period of 2017, this is due to the widening of the current account deficit. According to the Bank of Tanzania, current account recorded a deficit of USD 2,540.7 million in November 2018 compared to a deficit of USD 1,414.7 million in the corresponding period in 2017, the increased deficit is mainly due to an increase in imports coupled with a fall in official current transfers. A notable increase in imports was observed in capital and intermediate goods which is much associated with the ongoing infrastructure projects, including the standard gauge railway, stiegler's gorge, roads, bridges, ports and airports. These projects have been prioritized in the government's 2019/2020 budget.

On the commodities side, agricultural exports value decreased by 1.0 percent to USD 885.5 million following a fall in exportation of tea, cashew nut and cloves. A drop in earnings from cashew nut was due to a volume decline associated with the government's decision to halt raw cashew exports and opt for in-country processing of the crop. On the other hand, cotton prices increased in the world market on account of low production coupled with higher global demand. The recent rise seen in the global oil prices placed slight pressure on the currency given the size of oil importation in the country's basket of imports, the uptick in price was as a result of political instability in Venezuela and Iran as well as high global demand. The central bank however, remains focused in embracing currency stability and maintain an import cover averaging 5.0 Months.

The country's economy is projected to grow on the back of the continuing infrastructural projects, development of special economic zones and the government's initiative of building an industrialized economy. In addition to that improvement of the business environment as well as foreign direct investments is expected to provide support to the nation's GDP while inflation is expected to remain relatively within range in the medium term.

Sources: World Bank and Bank of Tanzania

Tanzania's economy set to grow at

6.6%

in **2019**

Fx Trend:

By Fredrick Mbuya, Trading

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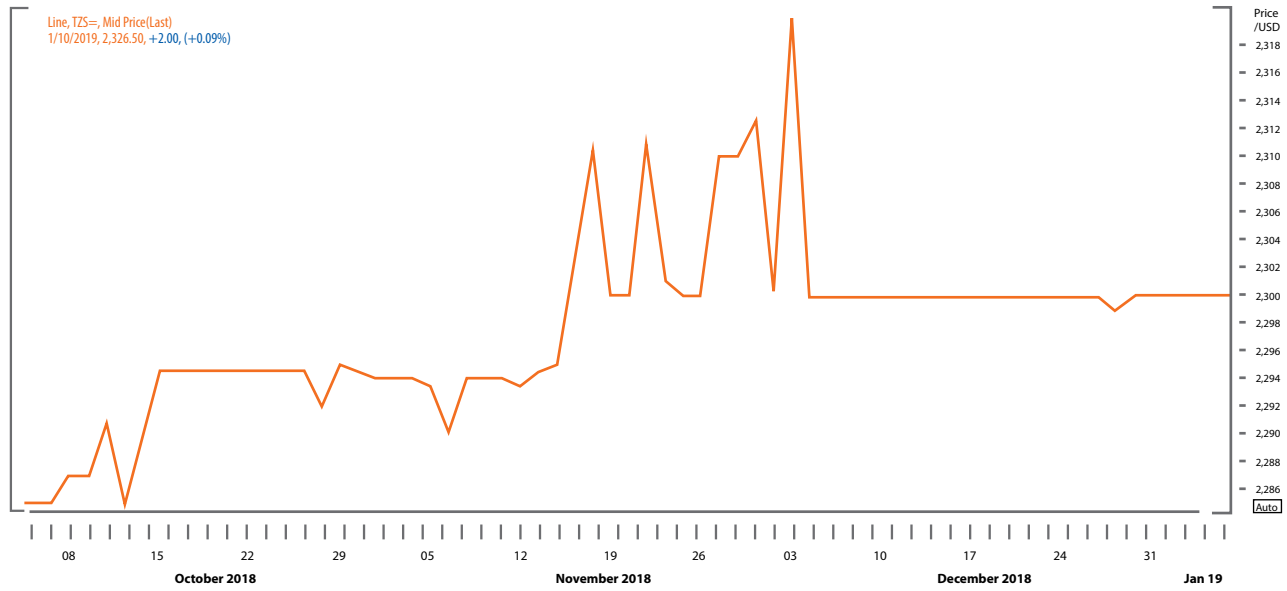
Tanzanian shilling holds ground

The Tanzanian shilling held its ground to trade in narrow ranges and only edged slightly lower by 0.83% against the US Dollar in the last quarter ending December 2018. The slight depreciation was a result of the increased demand for the hard currency mainly arising from an increase of imports of capital goods, which outweighed inflows, coupled with a decline in exports. The pair opened at 2285, then traded to the highs of 2325 before clawing back some of the depreciation to close at 2305. The volumes traded in the Interbank Foreign Exchange Market (IFEM) decreased by 42% from the previous quarter's USD 316.9 Million to USD 185.45 Million. The Bank of Tanzania participated as a net seller of an average of USD 140.67 Million, for local unit support, liquidity management purposes and maintaining orderly monetary policy.

The end of quarter shilling obligations for taxes, salaries and other commitments kept the local unit buoyed as businesses shifted their focus to meet the same while others exchanged their hard currencies to meet these obligations. Going into the first quarter of 2019, importers demand is expected to challenge the local unit but inflows mainly from non-traditional sectors like pulses should help to keep the local unit in check, while eyeing for traditional inflows from tourism and the next cycle of cash crops scheduled to kick in from end of May starting with Sesame, Cotton and later on Tobacco and Cashew nuts.

	Open	Low	High	Close
Q3 2018	2275.00	2273.00	2288.50	2285.00
Q4 2018	2285.00	2286.00	2325.00	2305.00



Source: Reuters

Click the following link to see our FX spot prices (https://www.nmbbank.co.tz)

Shilling edges lower by

0.83%

Interbank MM Activities

By Agnes Mayoro, Trading
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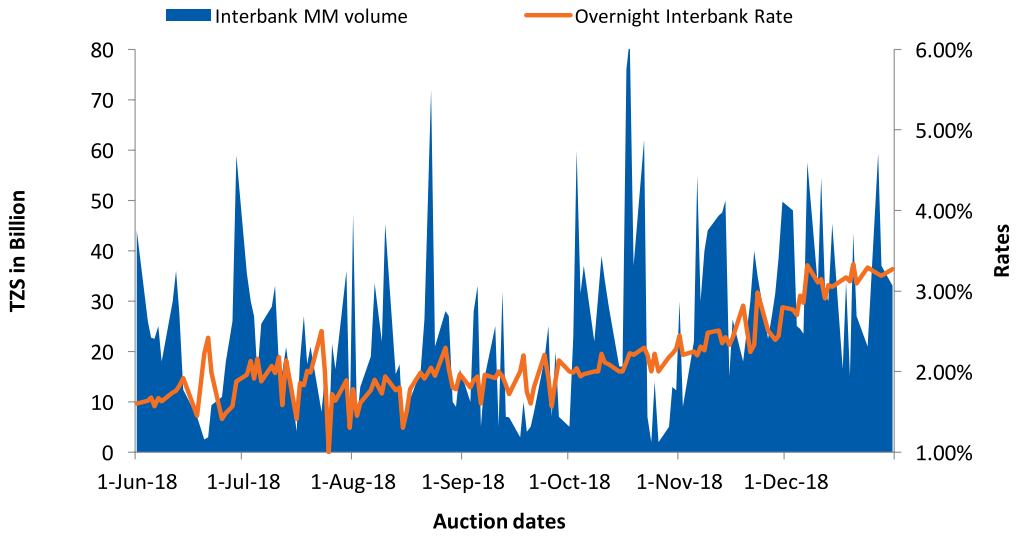
Increased activities, higher rates

Market liquidity was tighter in the last quarter of 2018 in comparison to the third quarter. End of year obligations saw most large and medium sized banks borrow and this can be explained by larger volumes traded in the interbank money markets. Interbank Money market volumes increased to TZS 2.03 Trillion from TZS 1.18 Trillion in the previous quarter, marking a 71.15% Q-o-Q increase. With tight liquidity, market average overnight rates increased to 2.52% from 1.86% seen in the third quarter.

With general elections expected in 2020, we expect to see a lot of government spending as part of projects implementation. This is expected to support market liquidity in the short-term, which will see overnight rates easing in the coming year.

Money market activities up by
71.15%
Q - o - Q .



Source: Bank of Tanzania

Inflation & Government Securities Trend:

By Agnes Mayoro, Trading

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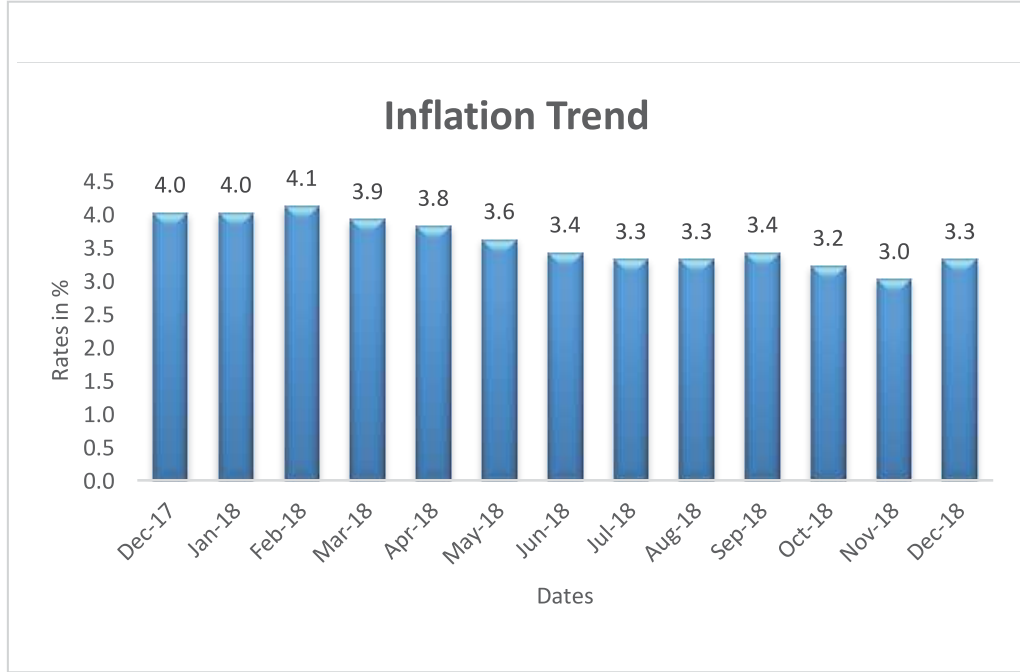
Inflation remains within target

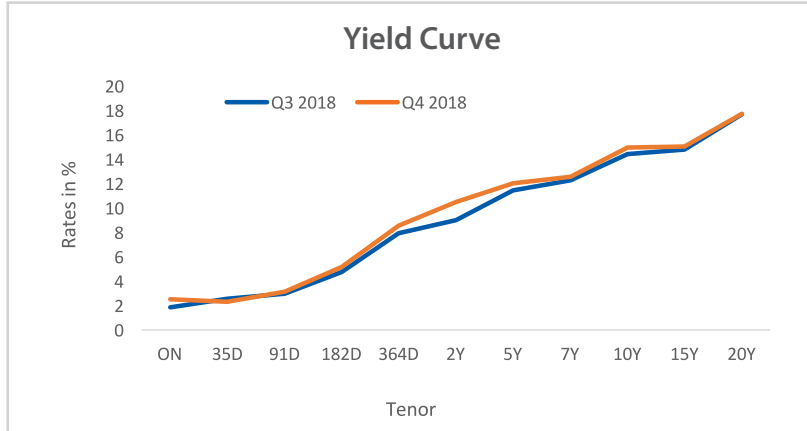
Food and Non-alcoholic beverages, the largest contributor to the CPI basket increased the highest by 1.1% M-o-M. This pushed Tanzania's annual headline inflation rate higher to 3.3% in December from 3.0% recorded in November. An increase in the speed of food and non-beverage prices increase can be explained by the festive season during the last quarter of 2018. Other large contributors, Transport (accounting 12.5%) only rose by 0.3% while a government move to relocate to Dodoma partly accounted for a housing, water, electricity, gas and other fuel (accounting 11.6%) fall by 1.3%.

Oil global market remains volatile but volatilities to higher prices are expected to be offset by improved local infrastructures, enough food reserves, and stable electricity supply. This coupled with current monetary stance should keep inflation within the target of below 5.0%

Yield curve shifts upward by ▲0.44% Q-o-Q



Source: National Bureau of Statistics

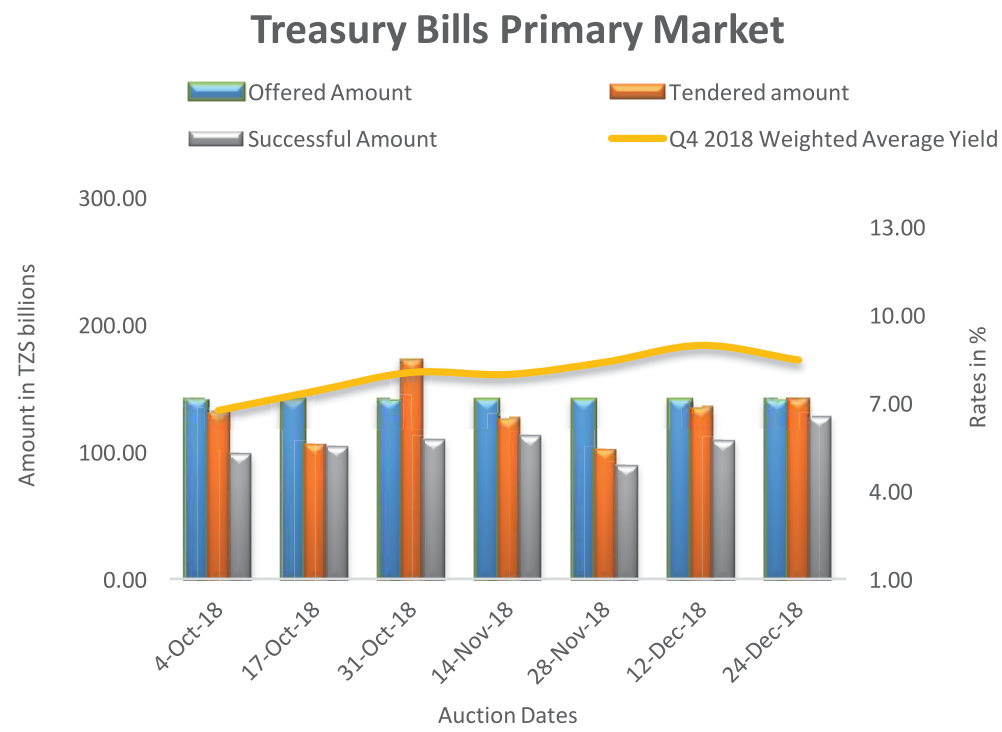


Source: Bank of Tanzania

Treasury Bills: Undersubscribed auctions, higher returns

During the quarter under review, seven auctions were conducted by Bank of Tanzania in which a total of TZS 987.00 billion was auctioned against TZS 846.37 billion auctioned in the previous quarter and TZS 1,183.00 billion offered during the same quarter last year. Out of the TZS 987.00 billion that was offered, bids worth TZS 914.65 billion were received explaining tight liquidity experienced during the quarter. Auctions in the quarter under review were only successful by TZS 749.02 billion leaving TZS 237.98 billion demand from the government uncovered as the government continues to improve in tax collections. This saw returns improve Q-o-Q to close a quarter at an overall weighted average yield of 8.47% from a close of 7.23% the previous quarter. This is above 8.27% where it closed the same quarter of 2017. Expectation for 2019 is for stable returns in the money markets as government spends on its projects implementation ahead of end of the 5th term in 2020.

WAY up by
▲ 124bps
Q-o-Q.



Source: Bank of Tanzania

Continued drop in investor appetite, improved returns

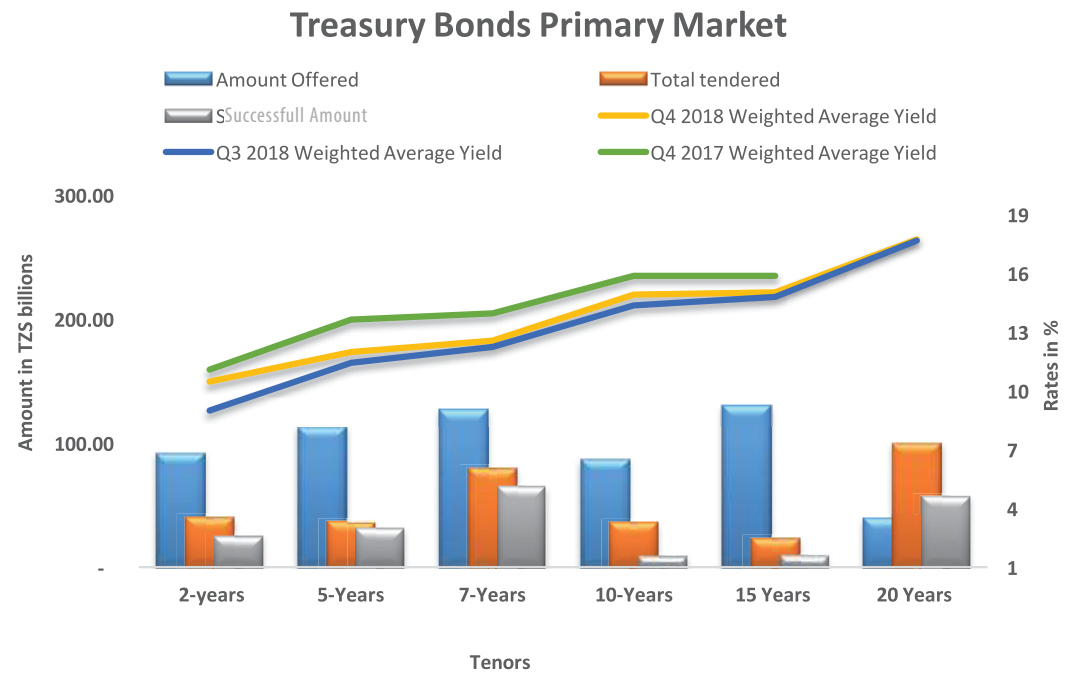
1. Treasury Bonds: Primary Market

A total of TZS 588.73 billion was auctioned in Treasury bonds of maturities between 2 years and 20 years in six different auctions during the fourth quarter of 2018, down from 761.90 billion offered during the previous quarter. Looking at the same quarter in 2017, only TZS 583.60 billion was auctioned.

In the reviewed quarter, all auctions with an exception of a 20-year bond were significantly undersubscribed leaving a demand of TZS 392.51 billion unfilled. Most investors were skewed to the longest end of the curve where returns are highest, this saw a 20 year bond significantly oversubscribed by TZS 60.63 billion. Out of the total TZS 588.73 billion that was auctioned during the quarter, only bids worthy TZS 315.32 billion were received out of which only TZS 196.22 billion was successful. Undersubscription can be explained by tight liquidity, slowdown in investment as the year ended and continued reduced investment activities by pension funds as they settled their debts to pensioners. Weighted average yields across all tenors remain below where they closed in 2017 but they turned above previous quarter rates across all tenors.

Out of the pensioner's payments worthy about TZS 700 billion, more than 70% was already paid by close of the reviewed quarter. The balance is expected to be cleared in the first quarter of 2019. With this, expectation in the coming year is for improved participation in auctions and rates are expected to continue improving as government continues funding its long term projects.

Auctions undersubscribed by ▲46.44%



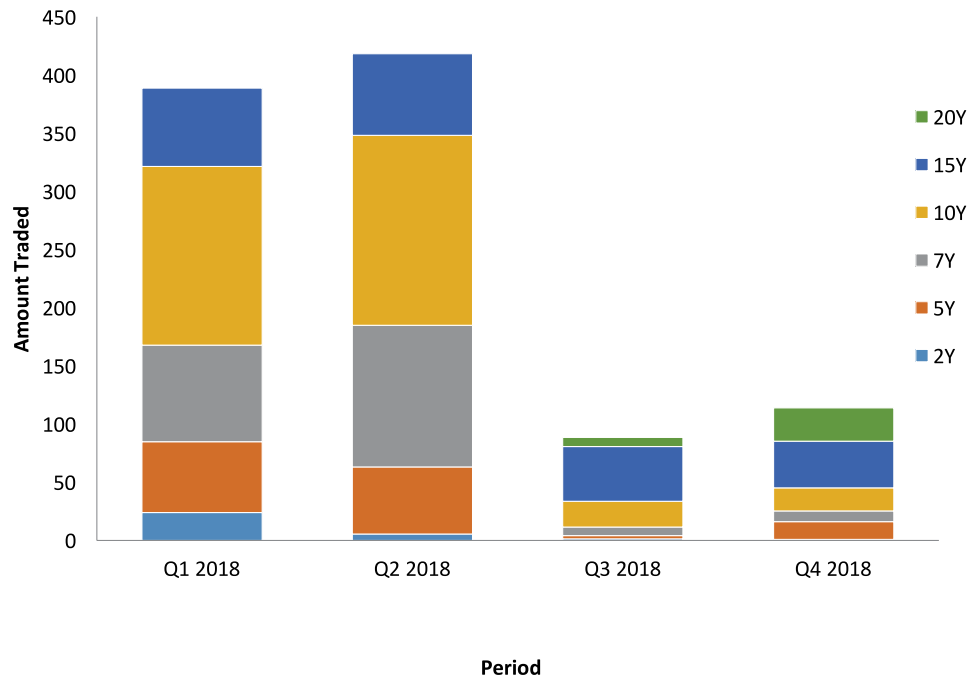
Source: Bank of Tanzania

Improved market activities

2. TreasuryBonds: Secondary Market

Long term papers remained dominant in the secondary bond trading activities with 15 year bond being the most traded paper followed by a 20 year paper. Total volume traded in the secondary bond market increased by TZS 25.55 billion to reach TZS 113.95 billion in the reviewed quarter from TZS 88.4 billion traded in the previous quarter. TZS 147.71 billion was traded the same quarter last year. This marks a 28.90% increase Q-o-Q and 22.86% drop Y-o-Y. Quarterly improvement in activities was backed by activities in the 20 year bond that was introduced in the previous quarter. With expectations for pension funds to clear outstanding pensioners' payment in the coming quarter, activities should improve further.

Market activities increase by ▲ **28.90%** Q-o-Q.



Source: *Dar es Salaam Stock Exchange*

Click the following link to see our Bond offers (https://www.nmbbank.co.tz/treasury-services/money-markets-investments/government-securities)

Equity Market Analysis:

By Avith Massawe, Custody Services

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Higher turnover, reduced market capitalization

Overall performance of Dar es Salaam Stock Exchange gained during the 4th quarter of 2018 compared to the previous quarter. The total turnover increased by 53% from TZS 28 billion recorded in the previous quarter to TZS 43 Billion. Likewise, the volumes increased by 50% from 11.8 Million shares to 17.8 Million shares in the same period.

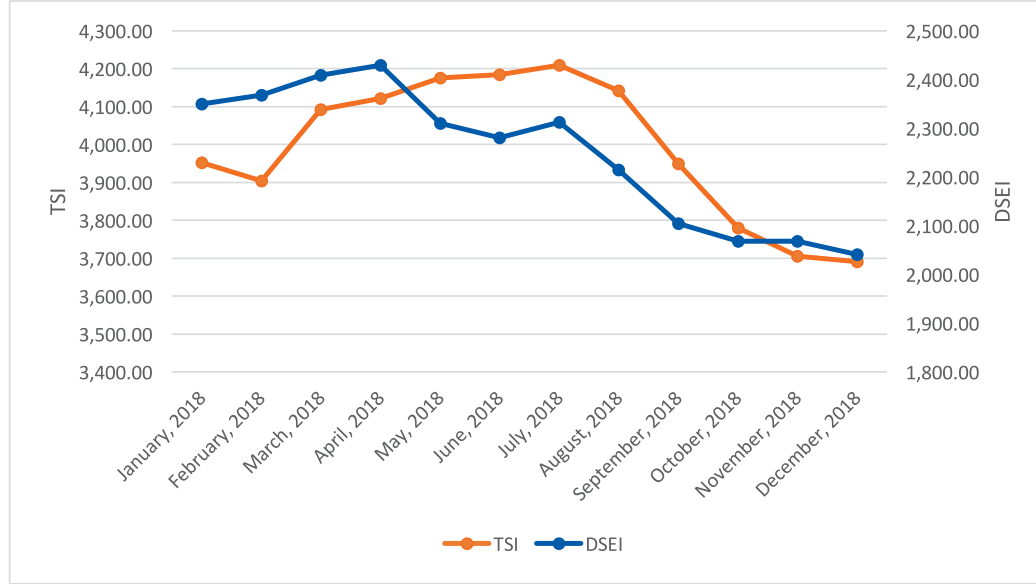
During the fourth quarter, foreign investors lead the bourse by holding a weighted average position of 90.14% and 80.23% on buying and sell side respectively. Correspondingly, on the previous quarter foreign investors led the bourse by holding a weighted average position of 89.60% and 80.21% on buy and sell side respectively. Trading activities from local investors remained constant with insignificant changes on both buy and sell sides. As compared to buy side, sell side remained high which could have resulted from holiday season spending and end of year financial obligations.

Total market capitalization decreased to TZS 19.60 Billion compared to TZS 20.2 billion seen in the previous quarter marking a 3.0% fall. This decrease results from share price fall during the quarter compared to previous quarter. Tanzania Share Index (TSI) decreased by 6.55% Q-o-Q to 3,691.36 points from 3,950.14 points the previous quarter and 5.81% Y-o-Y to 3,919.25 points. Counters which led by share prices decline during the quarter under review were DSE (21.35%),PAL (17.50%), TICL (16.88%), NMB (14.91%), TCCL(14.67%), NICO (12.90%) and CRDB (6.25%). Likewise, All Shares Index (DSE) decreased by a margin of 3% Q-o-Q to 2,041.39 points from 2,105.20 points the previous quarter. This is on the back of decreased price on major counters as the impact of cross-listed counters price decline. The counters with fallen prices are USL (25.0%), JHL (12.26%), EABL (8.41%), KCB (7.69%), KA (4.76%) and NMG (1.27%)

DSE turnover up by ▲53.0%

The following graph shows the trends of Indexes from Jan to December, 2018

DSEI and TSI Performance Jan-Dec 2018



Source: Dar es Salaam Stock Exchange

Key Highlights during the Quarter:

Annual General Meetings

Vodacom had the general meeting on 01st October, 2018 while TCCIA meeting was held on 30th November, 2018.

DCB Right Issues

In mid-November 2018, DCB Commercial Bank (DCB) informed existing shareholders and non- existing shareholders that it had officially launched sales of its shares via Rights issue for existing shareholders at a ratio of entitlement of the offer one new share for every two ordinary shares held and initial public offer for non-existing shareholders. The offer opened on 12th November, 2018 and will be closed on 31st January, 2019. The Right issue shares will be listed at DSE on 28th February, 2019.

NMB Bonds Interest Payment

NMB Bond paid interest on 17th December 2018 (Net interest TZS 2,428,908,657.23) for retail bond holders and on 28th December 2018 (Interest TZS 1,425,200,991.77) for corporate bond holders.

Dividend Announcements:

During the quarter under review, no company announced dividends to its shareholders, however, it is expected that after the companies issue their annual audited financial results which are expected to be out before end of quarter 1 2019, majority will announce dividends to shareholders.

Economic Data Issuance Calendar

ECONOMIC DATA ISSUANCE CALENDAR

The following economic data and government securities will be issued in the coming quarter, however Bank of Tanzania reserves a mandate to change the government securities calendar accordingly.

Date	Event
2-Jan-19	15-year Treasury Bond Auction
9-Jan-19	Treasury Bills Auction
9-Jan-19	December Inflation Data Release
16-Jan-19	2-year Treasury Bond Auction
23-Jan-19	Treasury Bills Auction
30-Jan-19	7-year Treasury Bond Auction
6-Feb-19	Treasury Bills Auction
11-Feb-19	January Inflation Data Release
13-Feb-19	5-year Treasury Bond Auction
20-Feb-19	Treasury Bills Auction
27-Feb-19	20-year Treasury Bond Auction
6-Mar-19	Treasury Bills Auction
11-Mar-19	February Inflation Data Release
13-Mar-19	10-year Treasury Bond Auction
20-Mar-19	Treasury Bills Auction
27-Mar-19	15-year Treasury Bond Auction

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