



Market **Digest**

Issue 14-2019



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Editors

Gladness Deogratias, Head , Global Markets
(+255) 022 232 2021

Michael Millinga, Head ALM & Fixed Income
(+255) 022 232 2018

TREASURY

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

For enquires: TreasuryFO@nmbtz.com



Economic **Analysis:**

Moderate global economic growth

Global economic activity has softened in the second quarter of 2019, with trade and manufacturing sectors showing signs of marked weakness. Global Economic prospects report downgraded global growth in June 2019 to 2.6 percent, a 0.3 percent drop from the previous forecast. This drop is a result of heightened policy uncertainty including the recent re-escalation of trade tensions between major economies accompanied by a deceleration in investment and decline in confidence. Furthermore, business optimism in manufacturing has softened, and could reduce further due to uncertainties in global trade prospects and rising trade tensions. This fall in the global growth is however projected to reverse in 2020 and rise to 2.7 percent and 2.8 percent in 2021, with emerging and developing economies being the main contributors for this growth.

Industrial commodity prices declined in the quarter under review, a reflection of growing trade tensions between United States and China. Oil prices also fell sharply, with the Brent crude oil price declining by 15 percent to USD 61 per barrel in early June. The outlook for commodity prices, especially oil is vulnerable to policy related risks as well as geopolitical events such as the conflict in Libya, weaker-than-expected growth in major oil consumers, especially China and the United States and environmental policies. According to the IMF, global consumer price inflation remained subdued across advanced economies,

emerging market and developing economies over the period from July 2018 to April 2019. This is mainly due to subdued food and energy prices. In the EAC region, inflation remained below the benchmark of not exceeding 8.0 percent, mostly driven by improved food supply and moderate oil prices. Tanzania's inflation rate is projected to remain within the medium term target of 5 percent in 2019/20 due to effective monetary and fiscal policies, stable power supply as well as improved access to food.

Tanzania has sustained a high economic growth rate averaging 7.1 percent for the past three years. In the recent years the key drivers of growth have been agriculture, tourism, construction, communications and information sectors. The theme of the country's 2019/20 budget as agreed by the East African Community partner states is to build an industrial economy for stimulating employment and sustainable social welfare. This year's budget continues to strengthen the industrial sector while promoting the agricultural sector which employs majority of Tanzanians.

Tanzania's government domestic revenue on cash basis amounted to TZS 14.6 Trillion in May 2019, 3.4 percent higher than what was collected in the same period in 2017/18. Total expenditure amounted to TZS 32.48 Trillion, out of which TZS 20.47 Trillion was for recurrent expenditure and TZS 12.01 Trillion was for development.



By Catherine Masanje, Sales

(+255) 022 232 2739

The overall balance of payments recorded a deficit of USD 1,291 Million in the year ending May 2019. Current account balance widened to a deficit of USD 2,150 million, relative to a deficit of USD 1,352 million in the preceding year. The deficit is on account of increase in goods imports, specifically increased importation of construction, machinery and fertilizer goods.

External debt increased by USD 1,074.5 Million to USD 21,600.8 Million at the end of May 2019 compared to the preceding period in 2018. The debt stock represented a 10.6 percent increase from what was recorded in May 2018. In both periods, the increase in debt was mainly on

Domestic revenues still the largest contributor, forecasted to

cover 70%
of the budget

account of newly disbursed loans for the ongoing large public investment projects such as the Standard Gauge railway, roads and bridges, airports and ports.

According to the Bank of Tanzania, credit extended by the banking system to the central government through treasury bills and bonds as well as the private sector grew by 18 percent in the year ending May 2019 compared to contraction of 7.3 percent a year earlier. The growth in credit is largely driven by, accommodative monetary policy as well as several initiative to improve business- enabling environment and measures taken by banks to reduce non-performing loans.

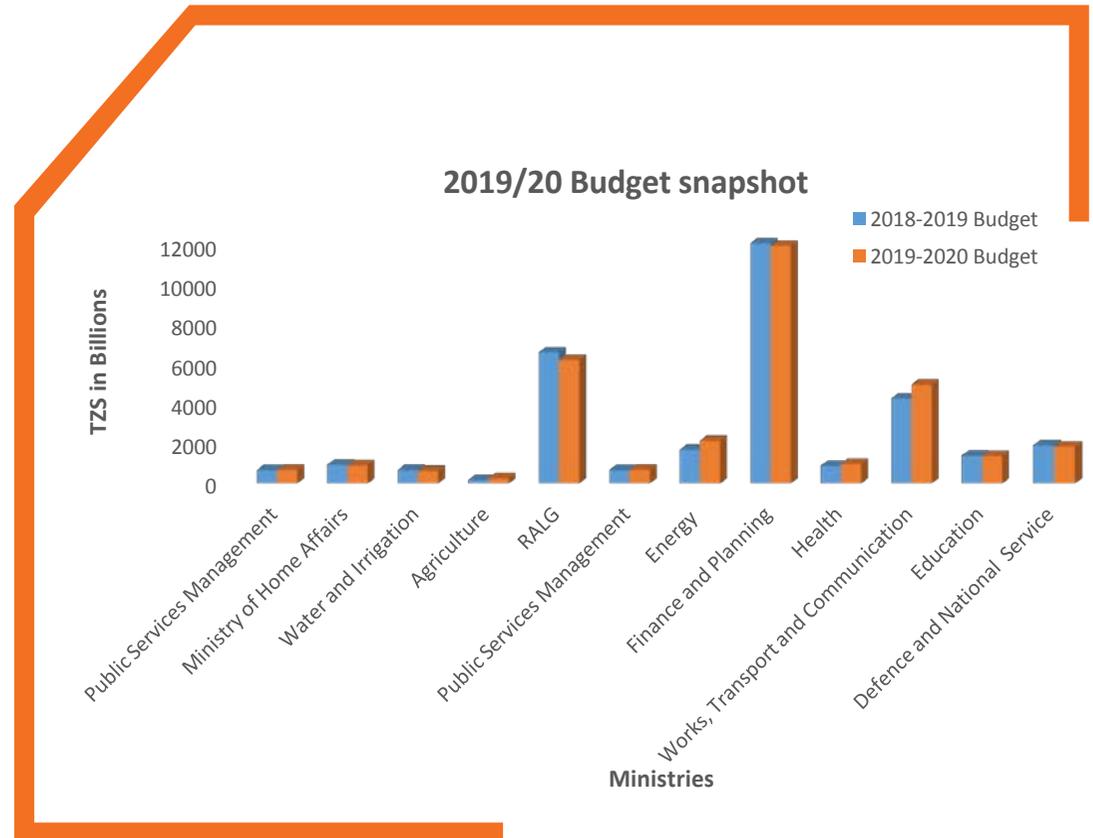
Interest rates on deposit and loans remain on the lower side, the overall one year lending rate decreased by 0.36 percent, to an average of 17.17 percent in May 2019 from the corresponding period in 2018. Similarly, the one year deposit rates declined to 7.62 percent in May 2019 from 8.9 percent in the corresponding month in 2018. On the same note, overnight placements accounted for 54.2 percent of the total interbank cash transactions signaling increase in liquidity amongst banks. The reviewed quarter saw a 0.89 percent increase in the overnight interest rates to 5.36 percent as few big banks heavily

borrowed. Looking ahead liquidity is expected to improve given the reduction of SMR rate on non- central government and public deposits from 8 percent to 7 percent.

The nominal exchange rate of the shilling against major currencies remained broadly stable in the period under review. Local currency is expected to slightly gain strength in the coming quarter as tourism activities pick up as well as inflows from exportation of traditional cash crops such as sesame and cotton continue.

The government plans to spend TZS 33.11 trillion in the 2019/20 financial year and domestic revenues still remains to be the largest contributor at 70 percent. The objectives of this year's budget are to streamline taxes, promote investment and improve the overall business environment of the country. This will be done by abolishment of various fees and levies which were imposed by different regulatory authorities and institutions. The government expects to spend TZS 12 Trillion in development projects, while TZS 20.86 Trillion will be recurrent expenditures. Domestic borrowings will drop slightly by 14 percent and be substituted by non-tax revenues, which in turn will reduce the government's borrowing costs.

The government
**substitutes domestic
borrowings** with non-
tax revenues.



Sources; International Monetary Fund, Global Economic Outlook report

Bank of Tanzania monthly economic review

World Bank, Global Economic prospects report

Ministry of finance and planning 2019/20 budget

The background is a vibrant blue gradient. It features several abstract elements: a large, upward-pointing arrow composed of many thin, parallel blue lines, some of which are highlighted with small white dots; a circular gauge or chart with a needle pointing to the right, located in the lower-left quadrant; and various faint, glowing lines and shapes that suggest a digital or data-driven environment. The overall aesthetic is clean, modern, and high-tech.

Market Analysis:

Money Market:

Overnight Interbank Cash Market: Burgeoning volumes, increasing rates

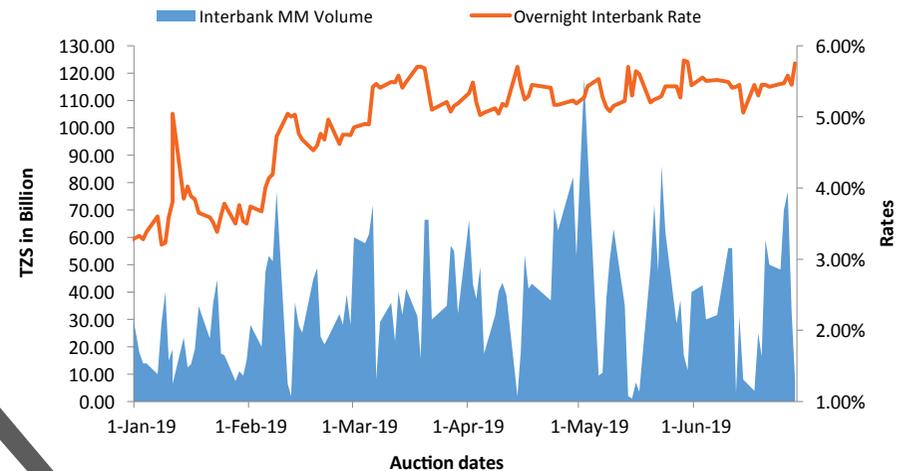
Volumes in the overnight Interbank Cash Market (IBCM) in the quarter under review staged a 20 percent increase in comparison to the previous quarter. Total traded volumes amounted to TZS 2.4 Trillion in the second quarter of 2019 higher than TZS 1.96 Trillion in the first quarter of 2019. This is explained by a high demand of local currency by a few big banks that were severely liquidity deprived leading them to borrow excessively during the quarter. This shilling demand was mostly serviced by big and medium sized banks that had a fair liquidity throughout the quarter. The market also recorded a Y-o-Y increase of 77 percent in volumes at IBCM compared to TZS 1.3 Trillion traded in quarter two of 2018.

Furthermore, this shortage of funding by some banks pushed interest rates on the overnight market to an average of 5.36% in quarter two of 2019 from 4.47% in quarter one of 2019. This is also higher than 1.52% that was seen in the same quarter of 2018.

Moving to the third quarter, we expect TZS liquidity to improve following the reduction of Statutory Minimum Reserve (SMR) rate on non-central government and public deposits and borrowings from 8 percent to 7 percent. This liquidity is also expected to soften interest rates in the market.



Interbank Money Market Activities

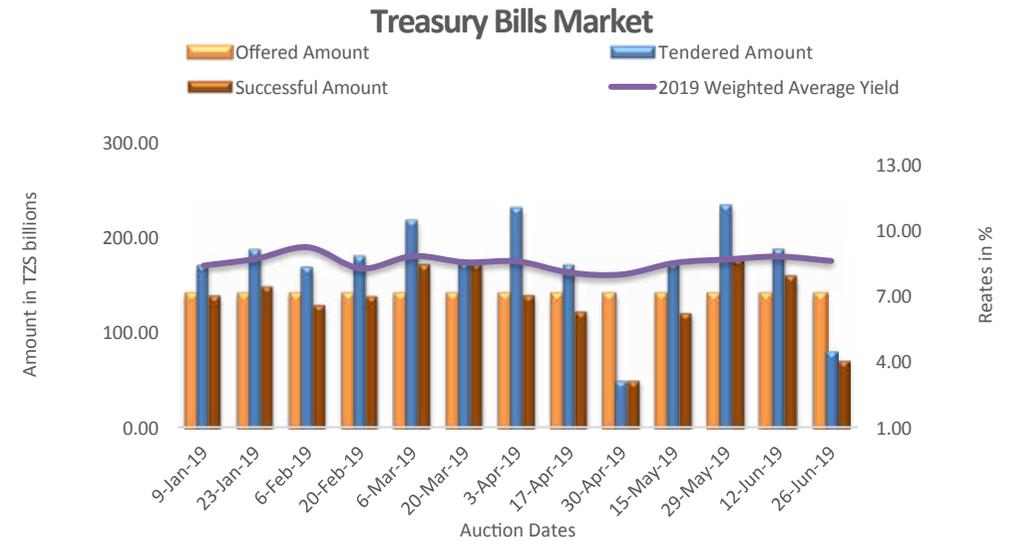


Source: Bank of Tanzania

Treasury Bills: Reduced investor participation, WAY slightly up:

The Bank of Tanzania staged 17 percent uptick in the Treasury Bills auctioned amount compared to the previous quarter. Total bids received during the quarter were TZS 1.13 Trillion marking a 14 percent oversubscription which is lower than the 30 percent oversubscription recorded in the previous quarter, demonstrating a diminishing demand for investment Q-o-Q due to end of government year fiscal obligations.

Out of the received bids, Bank of Tanzania took only TZS 836.75 Billion which was 15 percent below what was offered. This can be explained by good government revenue collections that reduced the need to tap domestic borrowing through the government securities. Nevertheless, rates hiked to stand at 8.59% as at end of quarter two of 2019, slightly up from 8.53% recorded at the end of quarter one of 2019.



Source: Bank of Tanzania

Foreign exchange market:

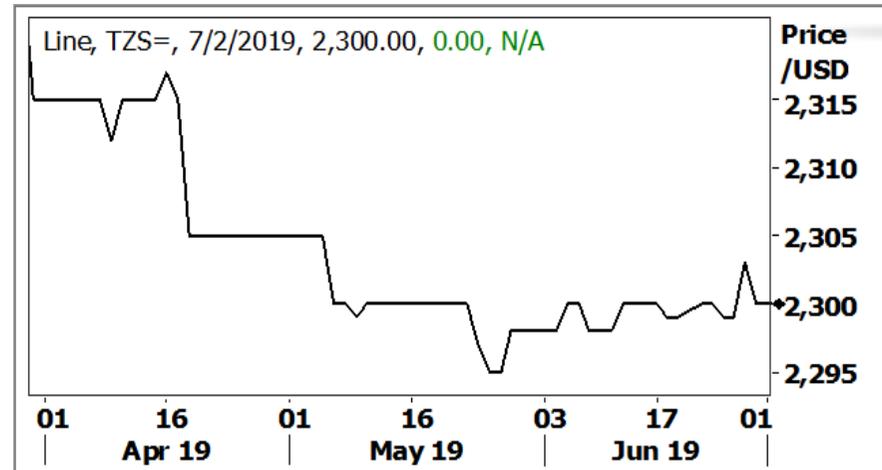
Shilling holds firm despite dividend demand

The local unit strengthened at the beginning of the second quarter of 2019 and later traded sideways for the rest of the quarter. The pair opened at TZS 2315 to the dollar before gradually appreciating by a percent to trade at a low of USDTZS 2295. From this low the local unit entered a period of consolidation and managed to hold its ground fairly well to close the quarter at USDTZS 2300. Unlike most second quarter with corporate dividend demands, this time the currency held firm as inflows from agriculture and tourism offered support.

The Interbank Foreign Exchange Market (IFEM) traded volumes increased to USD 260.07 Million during the period under review compared to USD 144.42 Million traded in the preceding quarter. This reflects an 80 percent growth in activities in the market owing to improved price discovery opportunities and elevated dollar liquidity levels in the market some of which is backed by impact of bureau closures which saw banks see increased forex inflows. The Bank of Tanzania participated in the market as a net buyer for liquidity management purposes and in order to maintain orderly money market conditions.

Looking ahead to the upcoming quarter, expectation is for a stable currency as inflows from sesame and tobacco begin. This stability to the local unit will further be assisted by flows from other cash crops including cotton, coffee and later on cashew in the coming quarter.

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



Shilling consolidates around the 2300 Psychological figure.

	Open	High	Low	Close
Q1 2019	2300.00	2365.00	2300.00	2315.00
Q2 2019	2315.00	2317.00	2295.00	2300.00

Source: Reuters

Government Bonds Market:

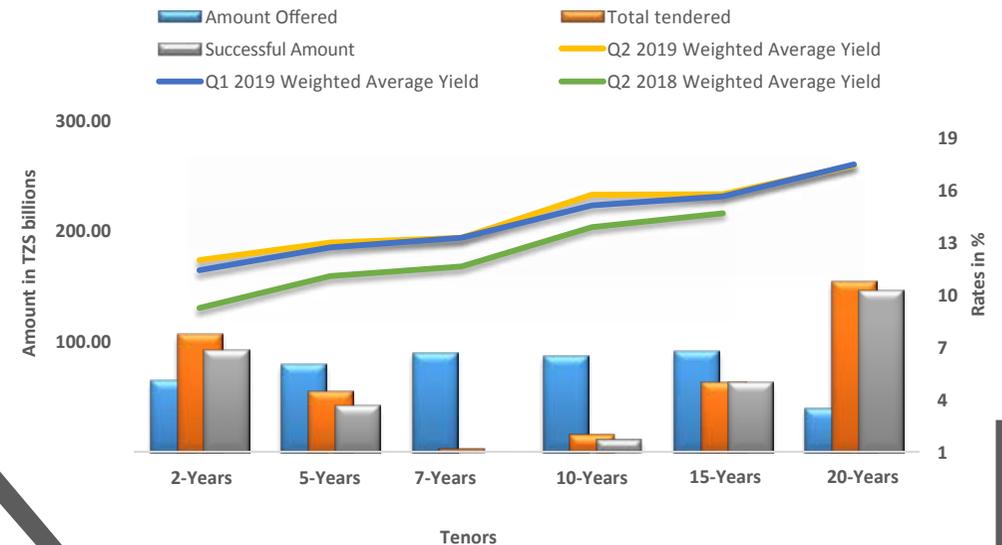
Reduced investor participation, stable yields

Government reduced offered amount in primary auctions Q-o-Q from offers worthy TZS 540.29 Billion the previous quarter to TZS 450.81 Billion in the quarter under review. Likewise, investor's participation also fell by 9 percent Q-o-Q resulting into undersubscription of 12 percent from that of 3% in the previous quarter with 20 year paper attracting most investors. The drop in investor participation is partly contributed by end of government year fiscal obligations hence low investment appetite. On average, all auctions were successful by 78 percent from 65 percent in the first quarter with returns remaining fairly stable Q-o-Q.

Government collected TZS 4.1 trillion from the domestic market from both bills and bonds auctions for the 2018/2019 financial year and expects to issue securities worthy TZS 4.95 Trillion for the 2019/2020 financial year down from TZS 5.79 trillion budgeted the previous year. This will be supported by improved non-tax government collections planned.



Treasury Bonds Primary Market



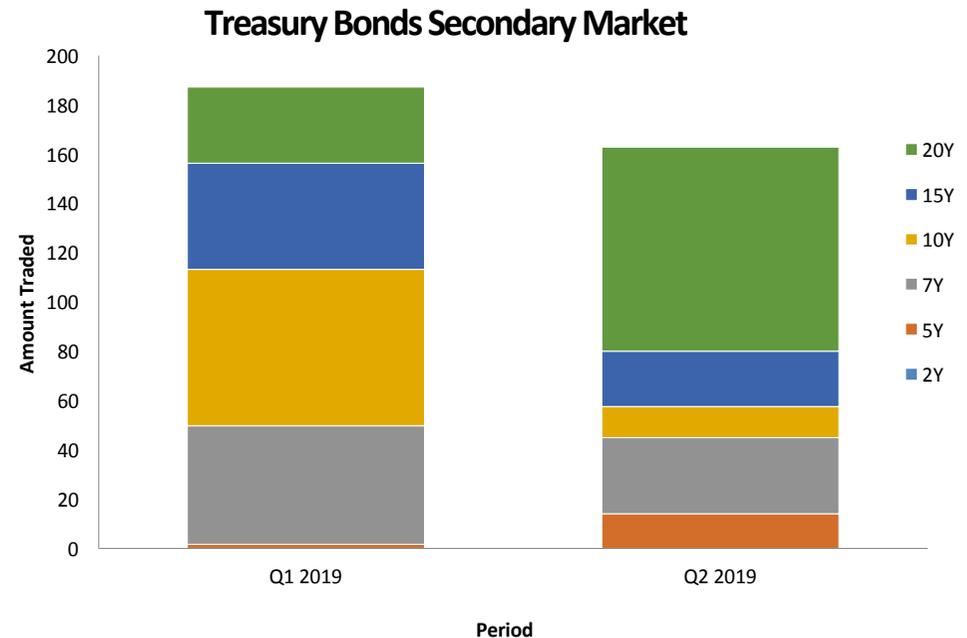
Source: Bank of Tanzania

In the secondary market, activities fell by 13 percent to a turnover of TZS 163 Billion from TZS 187 Billion in the previous quarter with 20 years paper attracting most investors trading to a tune of TZS 83 Billion from TZS 31 Billion in the first quarter. This is ascribed to a higher coupon on this paper. Activities in this market were partly affected by end of government year payment obligations and continued lower participation by pension funds on the back of their merger. High liquidity levels expected in the coming quarters following SMR revision and kick off in government spending, should stimulate activities in the coming quarter.

Secondary Market
activities down by

13% Q-o-Q

Treasury Bonds Secondary Market



Source: Dar es Salaam Stock Exchange

Equity Market:

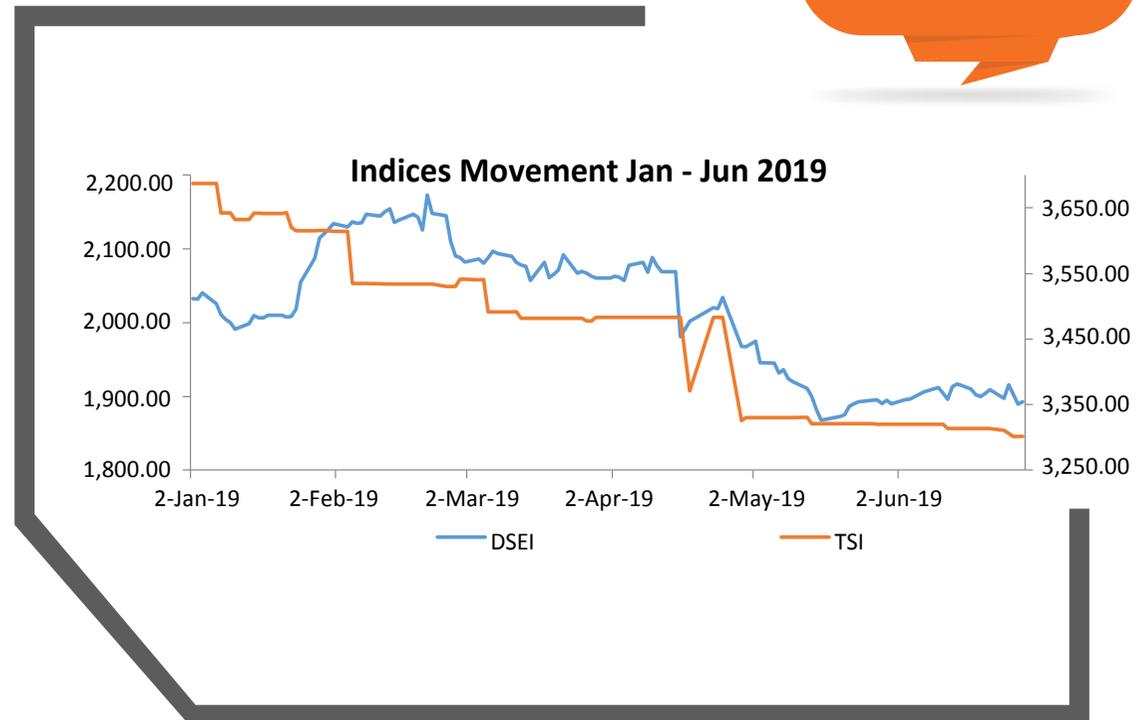
Liquidity turnover down by 30 percent

The total turnover in the equity market declined by 30 percent Q-0-Q to TZS 25.9 Billion from TZS 37.3 Billion recorded in the previous quarter. This could have resulted from a decline in share prices of both domestic listed and cross listed shares pushing investors to step aside in a wait and see mode. Likewise turnover fell by 50 percent Y-o-Y to TZS 25.9 Billion from TZS 51 Billion in the same period of 2018. Volume of shares traded decreased by 29 percent to a total of 46 million shares from 65million shares traded during a similar period last year.

Though at diminishing rate, foreign investors continued to dominate the market activities on both buy and sale sides during the quarter. Foreign investors' turnover on buy side was TZS 22.3 Billion and sale side was TZS 20.8 Billion which represent 86.2 percent and 80.3 percent respectively. Compared to same period 2018, foreign investors participation decreased by 51 percent on buy side which recorded TZS 45.4 billion and by 39 percent on sale side which recorded TZS 34.3 billion.

In the reviewed quarter, total market capitalization fell by 6 percent from an increase of 7 percent Q-o-Q in the previous quarter. Market capitalization stood at TZS 18.6 Trillion by the close of second quarter from TZS 19.8 Trillion recorded end of the first quarter. Main movers of the market capitalization were CRDB Bank (12 percent), YETU Microfinance (8 percent), DSE (8 percent), TOL Gases (6 percent), Swissport (6 percent) and TWIGA Cement (5 percent).

All Share Index (DSEI) which measures performance of all listed companies on the Dar es salaam stock exchange decreased by 8 percent in the reviewed quarter to 1,889.04 points from 2,060.29 points in the previous quarter. Likewise the Tanzania Share Index (TSI), which measures performance of locally listed companies decreased by 5 percent in the second quarter to 3,301.22 points from 3,482.87 points.



Source; Dar es salaam stock exchange

Key highlights during the Quarter:

NMB Corporate Bond (medium term note) 3rd Tranche

NMB bank Plc issued a corporate bond (Tranche 3 of the TZS 200 Billion Medium Term Note Program) which was opened for subscription from 10th June 2018 and closed on 8th July 2019. The Capital Markets and Securities Authority (CMSA) approved NMB Bank to issue bonds of up to TZS 25 Billion with the green shoe option of TZS 15 Billion more at 10 percent interest rate per annum, with a maturity term of three years. The minimum denomination for subscriptions was TZS 500,000 with integral multiples of TZS 10,000. This was the first corporate bond with quarterly coupon payments to be issued in our market.

Annual General Meetings

During the quarter, NMB Bank PLC, TPCC, SWISS, Maendeleo and TOL held their Annual General Meetings (AGMs)

Dividend Announcements:

During the quarter under review, NMB announced dividend of TZS 66 per share and paid on 26th June 2019. TPCC (Twiga) announced dividend of TZS 290 per share and paid on 30th June 2019.

NMB led the banking industry in paying the government dividend. NMB paid TZS 10.48 Billion, followed by CRDB TZS 6.7 Billion and TPB TZS 1 Billion.



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
3-Jul-19	10-year Treasury Bond Auction
8-Jul-19	June inflation data release
10-Jul-19	Treasury Bills Auction
17-Jul-19	15-year Treasury Bond Auction
24-Jul-19	Treasury Bills Auction
31-Jul-19	20-year Treasury Bond Auction
7-Aug-19	Treasury Bills Auction
8-Aug-19	July inflation data release
14-Aug-19	2-year Treasury Bond Auction
21-Aug-19	Treasury Bills Auction
28-Aug-19	10-year Treasury Bond Auction
4-Sep-19	Treasury Bills Auction
9-Sep-19	August inflation data release
11-Sep-19	15-year Treasury Bond Auction
18-Sep-19	Treasury Bills Auction
25-Sep-19	20-year Treasury Bond Auction

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