



Market **Digest**

Issue 15-2019



Table of Contents

- 03 Economic Analysis:
- Tanzania's economic growth projected above global average
- 06 Market Analysis:
- Decreasing volumes, stable rates in Overnight Interbank Cash Market
 - Treasury Bills Auctions highly oversubscribed, yields fall
 - Strong and steady continues to be the name of the game for the shilling
 - Increased activities in the Secondary Bond Market
 - Increased Equity Market turnover at the DSE
- 14 Economic Data Issuance Calendar

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Economic **Analysis:**





Tanzania's **economic growth** projected **above global average**

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Tanzania's government domestic revenue amounted to TZS 4,812.7 billion in the quarter under review a 7.8% increase from TZS 4,435.2 billion recorded in the previous quarter. Own source funds are a fundamental item in financing social services such as health and education, infrastructure and other public goods. This is in line with the 2019/20 budget objective, the government intends to improve domestic collections in order to fund the ongoing infrastructural projects. According to the monthly economic review report by Bank of Tanzania, current account balance was in deficit of USD 2,185.4 million in the year ending August 2019 compared to a deficit of USD 66.1 million in June 2019. The deficit was driven by capital goods and intermediate goods imports for various development projects. Official reserves continued to improve and are sufficient to cover 6.4 months of projected imports of goods and services.

According to the Bank of Tanzania external debt stock amounted to USD 21,754.9 million at the end of August 2019 a 5.3% increase from the corresponding period in 2018. Transport and telecommunication sectors were the major beneficiaries of the new disbursements. The Dodoma city outer ring road is one of the key projects that received funding from the AfDB. This is a project

worth USD 214 million aimed at providing efficient road transport access to Dodoma city, the rest of the country as well as other countries in the East African Community. In addition, credit extended to private sector by banks expanded by 8.2% in August 2019 higher than 7.6% recorded in June 2019. Improved business environment as well as accommodative monetary policy being the main factors for this credit growth.

On the other hand, interest rates sustained a downward movement in August 2019, the overall lending rate stood at 16.77% compared to 16.84% recorded in June 2019. Similarly, the one year deposit rate edged down to 7.01% from 7.67% recorded in June 2019. The shilling remained stable trading at an average of TZS 2300.52 per US dollar in the period under review. Dollar inflows from tourism as well as traditional crops exports supported this stability. Interbank cash market showed signs of improved liquidity as the overnight rates continue to fall to an average rate of 4.85% in the quarter under review compared to an average of 5.32% the previous quarter. Looking ahead liquidity is expected to remain stable as the regulator continues to support the market through standby facilities as well as open market operations.

Ahead of the upcoming cashew season, the government expects that close to 300,000 metric tons of cashew will be harvested in the 2019/20 season. This is 76,000 metric tons more than the 2018/19 season harvest. The increase in harvest is as a result of favorable weather conditions and increased supply of farming inputs. Cashew is the country's highest earning cash crop having generated over USD 565 million in 2017/18 season. The shilling is expected to remain stable in the coming quarter as dollar inflows from traditional crops continue. The annual headline inflation rate for the month of September has decreased to 3.4% from 3.7% recorded in June 2019. According to the National Bureau of Statistics headline food and non- food annual inflation rates have been decreasing. Headline inflation is projected to stay below the medium- term target throughout 2019/2020.

Domestic revenue records a
7.8% increase
Q-o-Q

The Global economy has entered into a period of synchronized stagnation, according to the IMF it is expected that 90% of the world will record a slower growth in 2019 as we approach year end. Trade tensions between the United States and China intensified, which resulted to the United States increasing tariffs on certain Chinese imports and China retaliated by raising tariffs on a subset of US imports. Global technology supply chains were threatened by the prospect of US sanctions, Brexit-related uncertainty continued and rising geopolitical tensions shook energy prices. The Federal Reserve Bank approved a quarter point rate cut in September putting overnight rates at a target range of 1.75% to 2%. This decision is expected to spur lending and boost the economy.

On the commodities side, Oil slipped further by 2.66% to USD 56.39 per barrel in September from USD 64.22 per barrel in June amid concerns about global economic growth, low oil demand and signs of excess supply despite OPEC-led cuts. According to OPEC's September monthly oil market report, global oil demand growth is forecasted to fall in 2020 due to changes in the economic outlook from a growth projection of

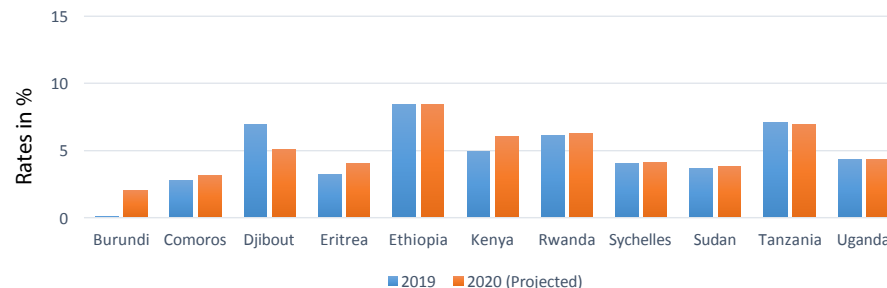
3.5% down to 3.4%, the report also forecasts that a growing surplus in the oil market next year will push prices lower. As global economic growth continued to slow down, Gold became a safe haven and consequently prices rose to USD 1,546.70 per ounce in September 2019 from USD 1,409.70 per ounce in June 2019.

Growth in the Sub-Saharan region has slowed in 2019, hampered by uncertainties in the global economy. According to the World Bank's bi-annual economic update, overall growth in the Sub-Saharan African region is projected to be 2.6% in 2019, this is a 0.2% points lower than the April forecast. While most African countries are affected by the US-China trade war and drop in commodity prices, East African economies have remained robust. The region's economic diversity is playing a key role in cushioning the countries from global economic shocks. Industry, services, tourism and agricultural sectors being the main drivers of growth in most East African countries. GDP growth in Tanzania is expected to remain moderate around 7.1 percent in 2019 according to the June 2019 Bank of Tanzania's monetary policy statement

Downward review
of Global Growth
Projections by
10bps.



GDP Growth Forecast



Source: September 2019 International Monetary Fund, Global Economic Outlook report

Sources; September 2019 International Monetary Fund, Global Economic Outlook report
September 2019 Bank of Tanzania monthly economic review
August 2019 World Bank, Global Economic Economic prospects report

Market **Analysis**



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Money Markets

Overnight Interbank Cash Market:
Decreasing volumes stable rates.

Overnight interbank cash market volumes in the quarter under review presented a 54% decrease in comparison to the previous quarter. Total traded volume amounted to TZS 1.3 trillion which is lower than TZS 2.8 trillion in the previous quarter. This is explained by high market liquidity which meant less borrowing and lending activities in the overnight interbank cash market

Excess cash in the market mainly from SMR revision effects and treasury bills maturities that missed out in auctions pushed interest rates in the market lower to average at 4.85% lower than an average of 5.32% in the second quarter.

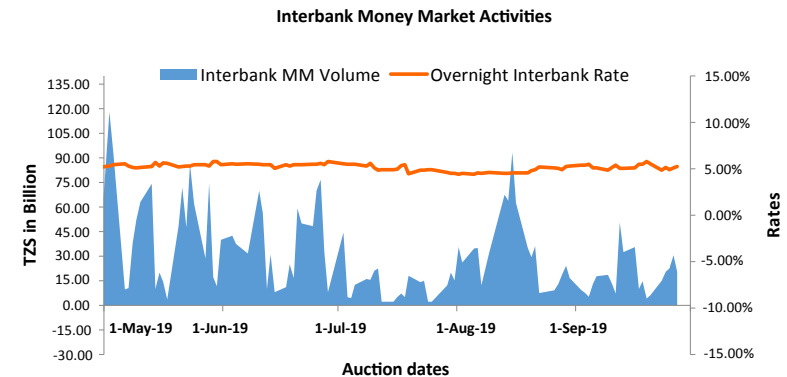
Given the current liquidity level prevailing in the market and current yields trend, it is expected that both TZS liquidity and yields in the overnight interbank cash market to remain fairly stable towards the year end.

By Samira Saleh, ALM Desk
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“Overnight interbank cash market activities down by 54% Q-o-Q.”



Source: Bank of Tanzania



Treasury Bills Trend:

Auctions highly oversubscribed, yields fall:

Bank of Tanzania announced a total of 6 different auctions where a total of TZS 637 billion was offered than TZS 987 billion auctioned in the previous quarter. Total bids received during the quarter were TZS 1,448 billion marking a 128% oversubscription which is higher than the 14% oversubscription recorded in the previous quarter. This can be partly explained by increased market liquidity levels pushing up demand for investment in treasury bills.

Out of the received bids, only TZS 630 billion was successful which was 1% below what was offered and rates continued to fall, closing the quarter at 6.85% lower than 8.59% in the previous quarter.

With this market liquidity, we expect yields to remain low in the coming quarter.



Treasury Bills Primary Market



Source: Bank of Tanzania

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Foreign exchange market:

Strong and steady continues to be the name of the game for the shilling

A quiet and steady quarter for the shilling as it consolidated around the 2300 psych level. The local pair opened the quarter at TZS 2300 and consolidated within a range of 2297-2302 throughout the period under review. This was in contrast to the wider shilling range seen in the second quarter. During the quarter under review, the range got tighter especially in the last month where the local unit traded between 2299 and 2298 to the dollar which is where it closed. As anticipated, the resilience was a result of inflows from the sale of Agricultural commodities mainly cotton, coffee and tobacco together with inflows from inter-regional trade at border regions.

Volumes traded in the IFEM increased to USD 450.39 Million during the third quarter up from the USD 260.07 Million traded in the preceding quarter marking a 73% increase in activities. This was a result of continued improvement in price discovery and elevated liquidity levels in the Interbank Foreign Exchange Market similar to what was observed during the second quarter. The Bank of Tanzania continued its role of maintaining orderly market conditions and managing liquidity by participating as a net buyer in the interbank market.

Expectations for the coming quarter is for the shilling to strengthen on the back of reduced US dollar demand with end of year tax obligations coupled with inflows from the cashew season which in previous years has brought in around USD 500Mio into the market. This season's auctions are expected to start either in late October or early November. This should bring more USD flows to the market leading to moderate appreciation of the local unit.

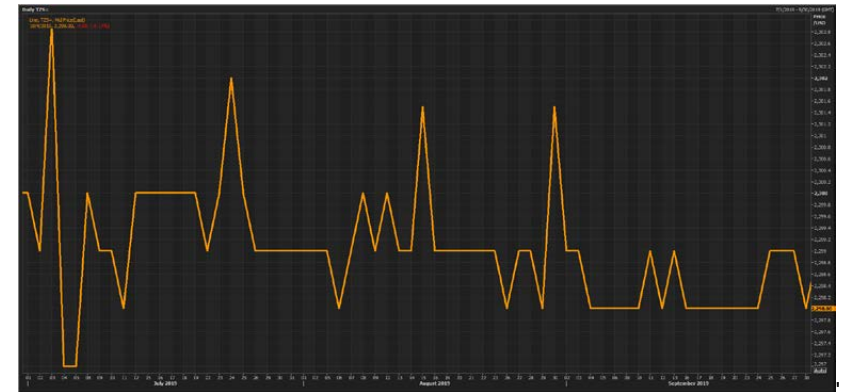
Click the following link to see our FX spot prices (<https://www.nmbbank.co.tz>)

By Fredrick Mbuya, Trading
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“Shilling remains strong and steady around the 2300 Psychological level.”



Source: Reuters

| | Open | High | Low | Close |
|---------|---------|---------|---------|---------|
| Q2 2019 | 2315.00 | 2317.00 | 2295.00 | 2300.00 |
| Q3 2019 | 2300.00 | 2302.60 | 2297.00 | 2298.00 |

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Government Bonds Market:

Reduced investor participation, stable yields

This financial year's issuance calendar more of long term paper and less short term paper auctions. From the short end of the curve, only a 2 year paper was auctioned. 5 year and 7 year papers were not auctioned during the reviewed quarter. Out of the total TZS 832.81 billion that was offered only TZS 137.50 billion was under 2 year auction and the balance was offered for 10 year, 15 year and 20 year auctions explaining the government long term financing needs. Favorable market liquidity conditions saw auctions receive bids worthy TZS 1,031.61 billion and only TZS 743.21 billion was successful.

Given the low frequency of the short term papers on the calendar, the 2 year paper auction attracted more investors which resulted to rates falling from 11.97% to 11.08% Q-o-Q. Long term yields remained fairly stable given their high frequency on the calendar. In the coming quarter all papers will be auctioned with an exception of a 2 year paper. Current market liquidity persisting in the coming quarter should ensure stable investor's participation.

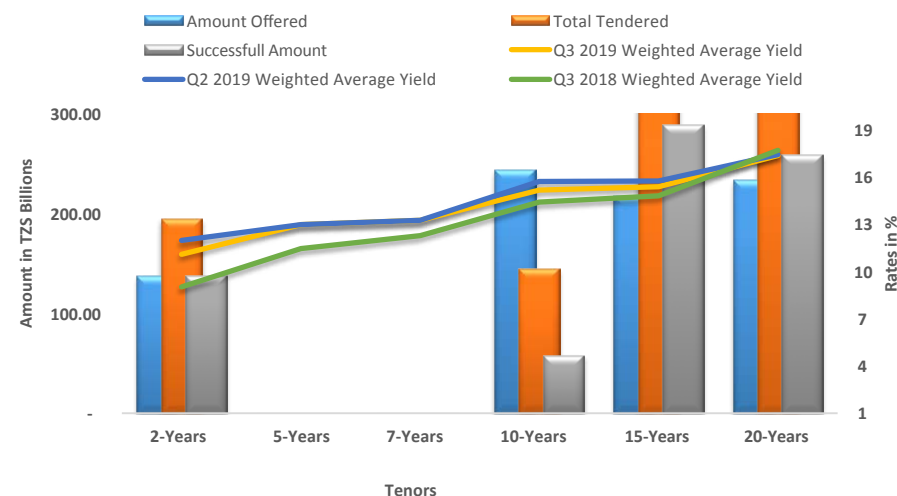
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Treasury Bonds Primary Market



Source: Bank of Tanzania

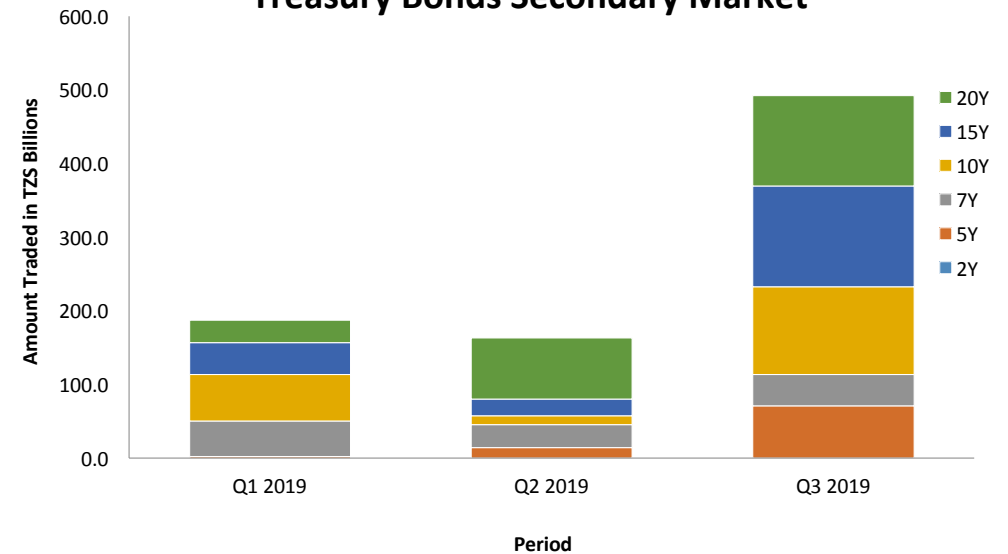
As per our expectations, secondary market activities significantly improved by 202% and DSE saw turnover hike to TZS 492 billion in the reviewed quarter up from TZS 163 billion in the previous quarter as both short term and long term papers attracted investors. An improvement in activities can be partly explained by regional large investors demand to lock in attractive yields and partly improved market liquidity levels which saw most large players participate. With expected favorable market liquidity, activities should remain steady.

Secondary Market
activities up by

202%
Q-o-Q



Treasury Bonds Secondary Market



Source: Dar es Salaam Stock Exchange



Equity Market: Increased Market turnover

The total turnover increased by 1926% Q-o-Q to reach TZS 527 billion during the quarter under review from TZS 26 billion recorded in the previous quarter. Volume of shares traded also increased by 1302% Q-o-Q during the same period to trade 644 million shares from 46 million shares traded in the previous quarter. This jump was mainly contributed by a trade in Vodacom shares in August 2019 where Mirambo Tanzania Limited sold 588 million Vodacom shares (with value of TZS 499 billion) to Vodacom group. The trade pushed up price of VODA by 6.25% explaining a gain of all share index (DSEI) and Tanzania share index (TSI) both by 2% and 1% respectively.

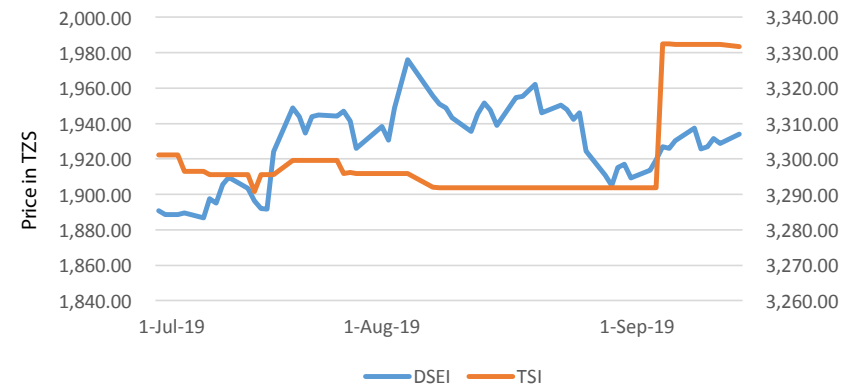
Foreign investors continued to dominate the market activities on buy side during the quarter. Foreign investors' turnover on buy side was TZS 522 billion which represent 99% while on sale side local investors dominated the market by 95%.

In the reviewed quarter, total market capitalization increased by 2% Q-o-Q. The gain during the quarter was mostly attributed by Acacia Plc, KCB Bank and VODA. Acacia gained 27% after Barrick and Acacia agreed on a takeover deal.

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Indices Movement from July -September 2019



Source: Dar es Salaam Stock Exchange

Key highlights during the Quarter:

Classification of the Dar Es Salaam Stock Exchange Plc (DSE) to Frontier Market Status

DSE achieved a Frontier Market Status classification by FTSE Russell. This follows the FTSE country classification review process that incorporates the assessment of global markets against a range of technical criteria and takes account of the perceptions of institutional investors.

Acacia Mining to de-list from Dar es Salaam Stock Exchange

The Dar es Salaam Stock Exchange is currently pursuing a formal process of de-listing the cross listed Acacia Mining PLC after it was acquired by Barrick Gold Corporation.

Annual General Meetings held during Quarter three

DSE, MCB, and Simba Cement held their Annual General Meetings.

Maendeleo bank's Annual General Meeting approved a dividend of TZS 17 per share. Following the authority granted by shareholders at the AGM, the shareholders were given scrip shares in place of their cash entitlement. Holders of ordinary shares received scrip shares in lieu of their entire cash dividend entitlement. The price for new ordinary share issued under the scrip dividend was TZS 600 per share.

Dividend Announcements during Quarter three

SWISS announced dividend of TZS 103.61 per share and paid on 15th Aug 2019, MAENDELEO announced dividend of TZS 17 per share and paid on 30th Aug 2019 and TOL announced dividend of TZS 17 per share and paid on 15th Aug 2019.





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 |
|-----------|----------------------------------|
| 08-Oct-19 | September inflation data release |
| 09-Oct-19 | 5-year Treasury Bond Auction |
| 16-Oct-19 | Treasury Bills Auction |
| 23-Oct-19 | 7-year Treasury Bond Auction |
| 30-Oct-19 | Treasury Bills Auction |
| 06-Nov-19 | 20-year Treasury Bond Auction |
| 08-Nov-19 | October inflation data release |
| 13-Nov-19 | Treasury Bills Auction |
| 20-Nov-19 | 10-year Treasury Bond Auction |
| 27-Nov-19 | Treasury Bills Auction |
| 04-Dec-19 | 15-year Treasury Bond Auction |
| 09-Dec-19 | November inflation data release |
| 11-Dec-19 | Treasury Bills Auction |
| 18-Dec-19 | 20-year Treasury Bond Auction |
| | |

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