

THE MARKETDIGEST

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Economic Analysis: GROWTH REBOUND

By Gladness Deogratias, Head of FX Trading

The Tanzanian economy is projected to grow at 7.2% this year; higher from the growth staged in 2015 at 7%, it is expected to stage even a higher growth of 7.4% in 2017. All this growth will largely be driven by construction, transport, communication and financial services. This improvement is also on the back of decline in global oil prices which is positive for the country as cost of production lowers. Survey report by the Integrated Labour also showed unemployment rate fell from 11.7% in 2006/7 to 10.3% in 2014/15 due to increase in the number of jobs in the informal sector particularly Agriculture . Fiscal deficit narrowed to 3.3% of GDP in 2014/15 compared with the average of 4.2% for preceding five years. The overall current account deficit in 2014/2015 declined to 8.7% of GDP despite decline in the world gold prices thanks to lower oil prices. Thus, current account will likely continue improving further on the back of reduced import bill from cheaper imported oil. This will be resulting from high demand for imported capital goods compared to the value of our agricultural exports. However, this will be in medium term as the new government embarks on industrialization to boost exports. As at December 2015, the stock of gross official reserve at the Bank of Tanzania amount to \$4.09bn which is about 4months of import cover.

	2015	2016f	2017f
GDP (%)	7	7.2	7.4

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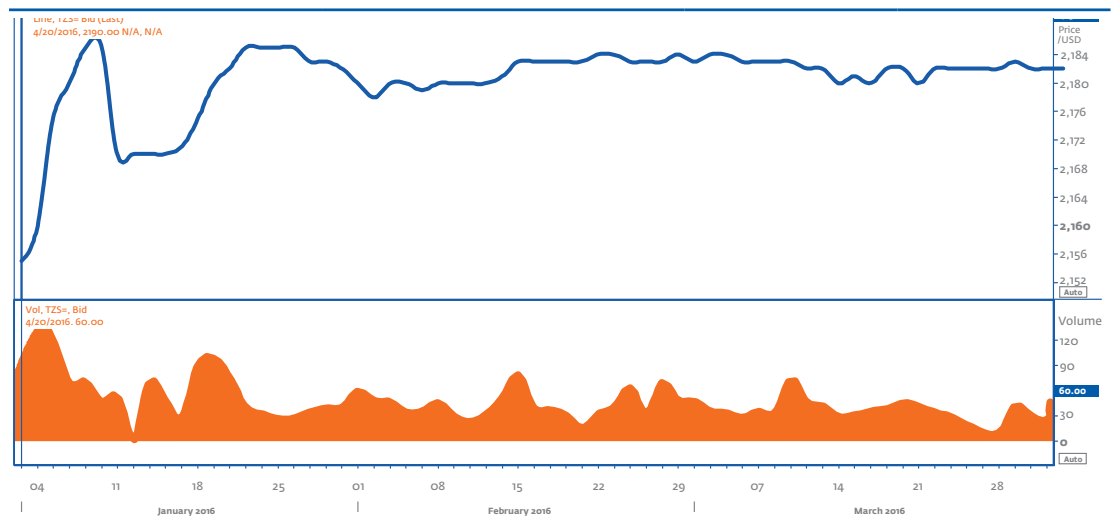
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FX Trend: FIRMLING CURRENCY

By Agnes Mayoro, FX Trader

The US Fed Reserve rising interest rates in December, 2015 meant Emerging Markets including the local currency responded to weakness as investor withdraw from risky assets. However, the pace of depreciation seen this quarter for the shilling was less in comparison to same period in 2015. The local unit opened the quarter trading at TZS 2155/\$ and closed at TZS 2182/\$; this is about 1.25% depreciation against the greenback versus 6.59% in the same Quarter last year . The average depreciation of the shilling against the dollar for the whole year in 2015 was 22.4%, the forecasted average in 2016 will be just below 3%. During the quarter, global oil price declined to a low of \$27 a barrel and traded to close at \$ 38.1 a barrel very close to an open of \$ 37.6. This continued to benefit our local currency by improving the balance of payments dynamics as the oil import bill continued to dominate the import goods bill at an average of 30% of the overall country's goods importation basket .The value of the oil import bill dropped from \$xxmillion in Q4 2015 to \$xxmillion in the quarter under review. However, over a longer term; the local unit is expected to trade with stability as industrialization and inflow from tourism and agricultural exports improve. The general rule of thumb is for every 10% currency depreciation inflation rate goes up by 1%.

Quarter 1	Open	Low	High	Close
USD TZS	2155	2153	2190	2182



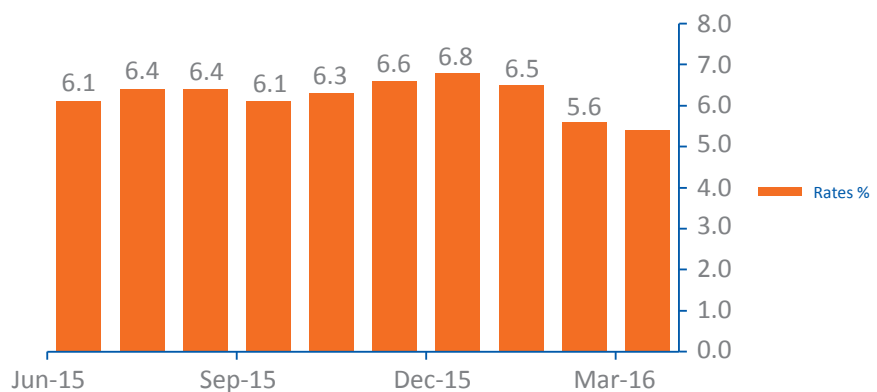
Source: Reuters

Inflation Trend: AT THE LOWEST SINCE MAY 2015

By Grace Mponeja, ALM Dealer

The annual inflation in March 2016 fell to 5.4% YoY from 6.8% YoY in December 2015. This fall is a result of slowdown in food and non-alcoholic beverages inflation. Although, the weighting of food in the consumer price index was reduced from 47.8% to 38.5% in January 2016, it still remains the largest weight in the basket of goods used. This, hence, poses a risk that weather related shocks could potentially cause an upward pressure on the inflation. However, inflation is still expected to ease and remain within single digit in the range of 5-6% at least in the quarters ahead as a result of reduction in power tariffs and the continuous decline in global oil prices.

Inflation trend



Source: National Bureau of Statistics

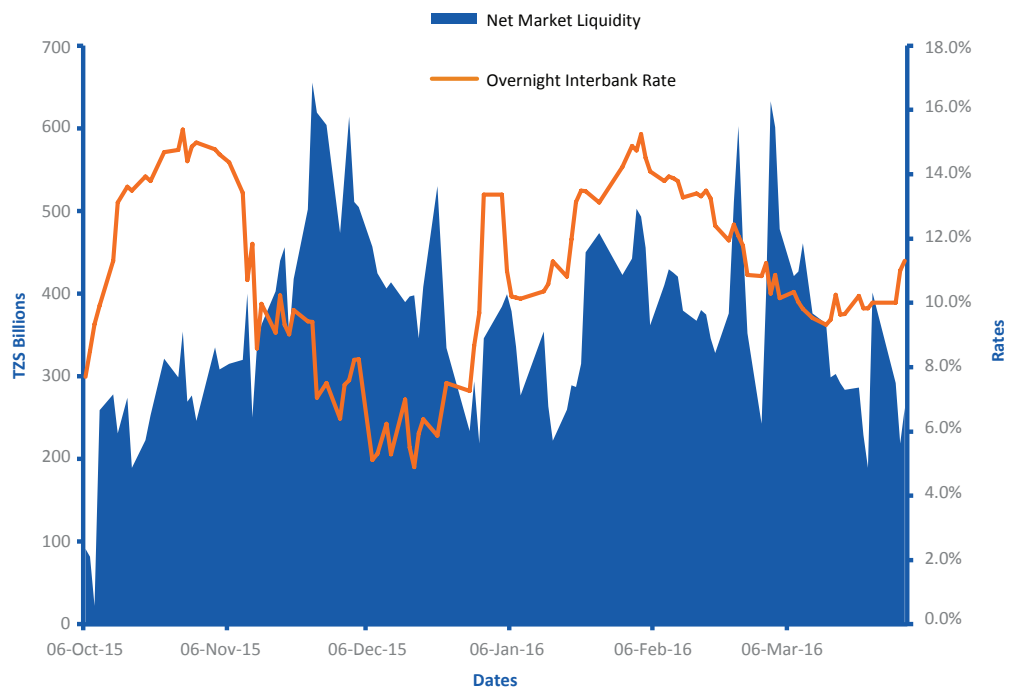


Liquidity and Rates: A FAIRLY LIQUID MARKET, DOUBLE DIGITS OVERNIGHT RATES

During the quarter under review, the market saw a reasonable liquidity with a daily net average of about TZS 397bn distributed amongst commercial banks. However, the Lombard facility was accessed throughout Q1 with the highest amount in the month of March resulting from settlement of quarter-end tax obligations to the government corporate. The fair liquidity staged in the quarter led to oversubscription in all short term government securities auctions.

On the other hand, the liquidity grasped in the Interbank Money Market steered activities as the Overnight volumes traded in Q1 2016 amounted to 2.64 trillion compared to 1.85 trillion traded in the same quarter last year. This is about 42% growth YoY. The overall overnight weighted average rates leveled at 11.77% in Q1 2016 compared to 7.15% in Q1 2015. We anticipate downward trajectory in rates in Q2 to single digits as the market expects the government to spend further before the end of 2015/2016 FY.

Market Liquidity Conditions and Overnight Interbank Rate



Source: Bank of Tanzania

Treasury Bills: OVERSUBSCRIBED AUCTIONS WITH DWINDLED YIELDS

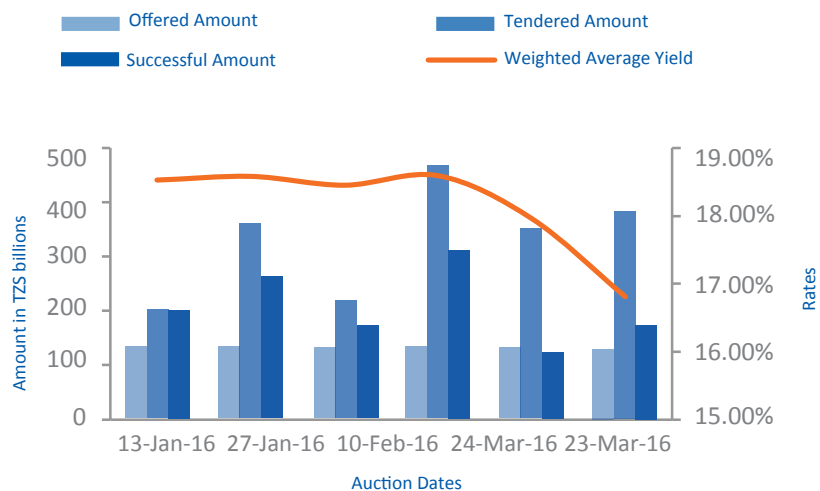
By Samira Saleh, Senior ALM Dealer

Following a fairly liquid market in the quarter, key players in the government securities market participated heavily in the auctions. This occasioned an oversubscription of all short term government securities throughout the quarter under review. In addition, the central bank mopped this liquidity out of the market by taking more than what it offered in most of the auctions. This is in line with tight monetary policy stance to limit upward pressure on the inflation. Consequently, the overall weighted average yield for treasury bills declined to 16.81% in Q1 from 18.20% in the previous quarter. However, in comparison to the same quarter last year, the overall yield improved from 11.98% as the government borrows from the market for budget support.

Q1 TREASURY BILLS AUCTIONS SUMMARY

	TOTAL
Amount Offered (TZS Mn)	798,000
Total tendered (TZS Mn)	1,984,764
Successful Amount(TZS Mn)	1,259,454
Current Overall WAY	16.81%

Treasury Bills Market



Source: Bank of Tanzania

Treasury Bonds: UNDERSUBSCRIBED AUCTIONS WITH IMPROVED YIELDS

By Samira Saleh, Senior ALM Dealer

1. Primary Market

The primary bond market had a weak performance as most investors' appetite, especially commercial banks, were skewed towards short term securities. During the period under review, the Bank of Tanzania conducted seven Treasury bond auctions of which all auctions were undersubscribed except for the 15year bond and 2year bond held on 02nd March and 16th March respectively. The weighted average yields in all tenors increased in comparison to their respective previous auctions. This is in an effort to support government budget as revenue collections improve over time. Below is the summary of all primary auctions held in Q1:

TREASURY BONDS AUCTIONS SUMMARY					
	2 YEARS (7.82%)	5 YEARS (9.18)	7 YEARS (10.08%)	10 YEARS (11.44%)	15 YEARS (13.50%)
Amount Offered	165,200	96,600	202,000	84,200	38,000
Total tendered	107,015	69,854	115,736	53,360	48,513
Successful Amount	103,346	28,000	91,478	53,360	40,744
Current Weighted Average Yield	17.5106%	18.7923%	18.1670%	18.8237%	19.7586%

Source: Bank of Tanzania

2. Secondary Market

The Secondary bond market in Tanzania is still emerging with minimal trades, henceforth alleged as an illiquid market. A total of TZS 107.84B worth of Treasury bonds exchanged hands during the period under review. Financial markets participants especially commercial banks continue to make progress towards improving both the efficiency and absorptive capacity of this market.

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

GOVERNMENT BONDS TURNOVER TZS BILLIONS						
Tenor (Years)	2	5	7	10	15	Total
Amount Offered (TZS in BN)	1.5	8.5	44.49	14.75	38.6	107.84

Source: Dar Es Salaam Stock Exchange



Treasury Single Account:

By Richard Rwegasira, Head of Treasury Sales & Structured Products

Treasury Single Account (TSA) is a joint arrangement of government bank accounts that consolidates all government cash resources. This single account or a set of linked accounts allows the government to transact all its receipts and payments from a single source..

Government banking arrangements of this nature are an important factor for efficient and aggregate management and control of government's sources of funding. This plan if well designed and executed can be expected to minimize the cost of borrowing and maximize the opportunity cost of cash resources of the state. It however, necessitates that all revenues collected are available for carrying out government's spending programs and making remittances in a timely fashion. It will also help in facilitating reconciliation between banking and accounting data. Nevertheless, government cash balances in the commercial banking sector are not idle for the banks themselves, at times can be used to extend credit to the public.

In addition, TSA also facilitates better coordination of fiscal and monetary policy as well as better reconciliation of fiscal and banking data, which in turn improves the quality of fiscal information and decisions made. Thus, the establishment of an effective TSA knowingly shrinks the costs of servicing debt.

In most countries the central bank acts as the fiscal agent of the government which in other words would be the custody of this account, nevertheless in theory, the main account of a TSA could also be held at a commercial bank. In practice, the government banking arrangements may consist of several bank accounts which can be at both the central bank and commercial banks.

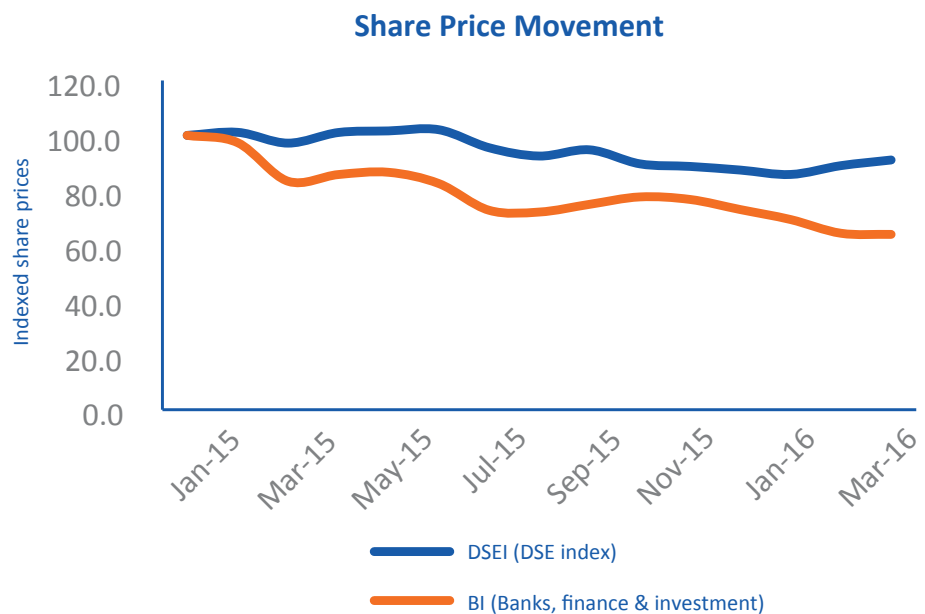


Equity Market Analysis: BEST RETURNS IN EAST AFRICA REGIONS

By Anna Mwasha, Manager Investor Relations

In the first quarter of the year, the Dar es Salaam Stock Exchange (DSE) offered the best return above all stock markets in the East Africa Region. The bourse registered stock returns of 2.9%, in US dollar adjusted.

A challenging and uncertain operating environment in the quarter led to decreased activity of liquidity turnover and domestic listed stocks performance.



Source: Dar Es Salaam Stock Exchange

The total market capitalisation and the DSE Index (tracking all 23 listed equity companies) increased by 4% from the last quarter (Q4:2015).

	4 January 2016	31 March 2016
All shares Index (DSEI)	TZS 2,353.28	TZS 2,432.04
Market Capitalization	TZS 20.7tn	TZS 21.3tn



Highlights

- Exim Bank listed its Exchange Traded Retail Bonds (ETRBs) on the DSE in February 2016. The initial public offering (IPO) of Tanzania's first ever retail bond was oversubscribed by almost 100%; having received TZS 19.92bn for the initially offered TZS 10bn.
- YETU Microfinance was listed on DSE's Enterprise Growth Market in March 2016. The firm's share price increased by 20% during the first day of trading at the DSE. The Microfinance had raised TZS 3.1bn through an IPO in November 2015.

Upcoming

The Dar es Salaam Stock Exchange (DSE) is planning for an IPO and self-listing. The demutualization is expected to strengthen the bourse's governance as well as ensure financial sustainability.



Financial Market Calendar

Date	Event
6-Apr-16	Treasury Bills Auction
9-Apr-16	March Inflation Data Release
13-Apr-16	10-year Treasury Bond Auction
20-Apr-16	Treasury Bills Auction
27-Apr-16	5-year Treasury Bond Auction
4-May-16	Treasury Bills Auction
9-May-16	April Inflation Data Release
11-May-16	15-year Treasury Bond Auction
8-May-16	Treasury Bills Auction
25-May-16	2-year Treasury Bond Auction
1-Jun-16	Treasury Bills Auction
8-Jun-16	7-year Treasury Bond Auction
9-Jun-16	May Inflation Data Release
15-Jun-16	Treasury Bills Auction
22-Jun-16	10-year Treasury Bond Auction
29-Jun-16	Treasury Bills Auction

* BOT has a mandate to change the calendar accordingly.

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