

# THE MARKETDIGEST

ISSUE 2 JULY 2016

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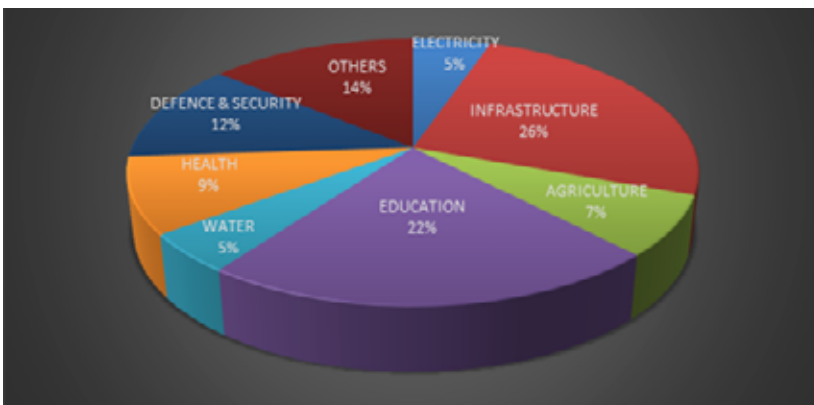
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# Economic Analysis: SOLID ECONOMIC OUTLOOK

By Gladness Deogratias, Head of FX Trading

Tanzania, the largest East African country with an estimated population of 47.5 million people as of 2014 tabled its budget for 2016/17 in June of about \$15 billion. The country is expected to make significant economic and structural reforms and sustain its economic growth given the political stability following the General Election in October, 2015. Much of the Government's financial plan (See Pie Chart below) of the budget is on development expenditure with infrastructure & transport, education, health and electricity receiving higher allocation about 43%. The view is for the government to facilitate infrastructure in these Export Processing Zones (EPZs) and Special Economic Zones (SEZs) and through Public Private Partnerships (PPP) successful industrialization will evolve.



Source: Budget Speech

The new government plans to increase domestic revenue through tax collection by sealing tax evasion loopholes and bowdlerized in wage bill of public servants by cleaning up of ghost workers. The plan is for about 62.5% of the total budget will be raised from local sources such as tax revenues so as to reduce substantially budgetary dependence on donor funding. Rebalancing spending in favour of capital investment and improve tax compliance. Thus, the outlook is set for a bright fiscal policy as all these

## The Treasurer's Word

The outlook for the Tanzanian economy remains very hopeful. The overall growth policy seems to focus on stimulating inclusive growth and industrialization which will ultimately lead to gradual reduction in fiscal deficit as well as support current account on the back of manufactured exports from boosted industrial production. Current account deficit has significantly narrowed helped by developments in the world commodity prices and impact on local imports especially oil.

Currency volatility poses clear inflationary risks, given our dependency on imports. However, the local unit has been stable since the beginning of the year; climate change will affect food prices and rising global oil prices, may put pressure on the shilling in the medium term. We believe shift to formal inflation targeting system will improve monetary policy effectiveness and keep the inflation within range. The quarter saw an active overnight interbank market given tightness in liquidity especially towards the end of June and into July with increases in interbank lending and repo rates. Government securities rates fell as government also borrowed less from the market given improved tax collection.

On the capital markets, investor appetite was very strong with NMB Retail Bond as well as DSE IPO both being oversubscribed. Our eyes are now in the upcoming listings expected in the remaining part of the year with the banking sector expected to continue increasing avenues for investors access into the capital markets.

## TREASURY

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initiatives will result into reduction in the deficit. The forecasted rate is a 3% GDP fall of deficit in 2016/17. The Government aims for 7.3% real GDP growth in 2016/2017 by increasing spending by 31% in infrastructure and industrialization projects.

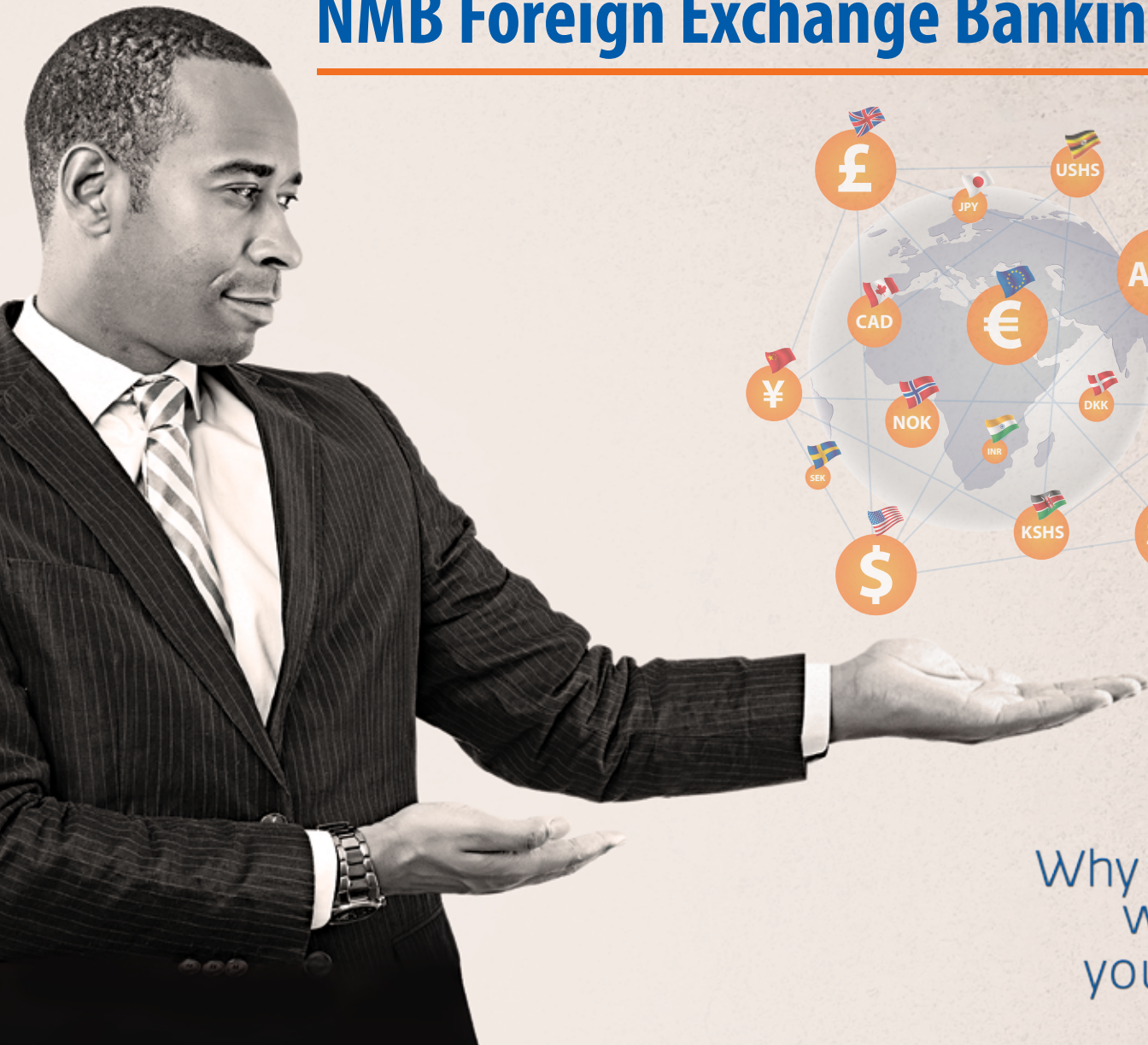
The external sector (exports) has improved resulting into narrowing of a current account by 48.7% as well as reduction in import bill. Current account deficit is expected to contract in the interim as export season begins although this over time will reverse as pressure for imports from energy and transport mounts. Growth in GDP will remain brisk on the back of domestic consumption and boost in manufacturing, construction and financial services. The latter contributes almost 30% of GDP.

On the commodities side; agricultural exports have been constrained by inadequate infrastructure and weather related shocks (climate change). Price for grains such as corn are expected to rise as global demand remains steady but supply slackens. Thus, the energy sector is the one expected to drive growth particularly with the recent discovery in the natural gas amounting to 1.9trillion cubic feet. However, this growth could be delayed due to lack of expertise, technology and funding to tap into this resource for energy efficiency. The recent uptick seen in the global oil prices of \$51 from a close of \$39 per barrel in March may put a pressure on the currency given the size of the oil import in the basket of imports. The central bank however, will remain focused in embracing price stability and maintain import cover averaging 3.6Months. This reflects use of policy instruments particularly reverse repo and Statutory Minimum Reserve (SMR) ratio for liquidity management. This tight monetary policy by the Bank of Tanzania is expected to put brakes and slowdown rapid currency depreciation compared to one seen in 2015.



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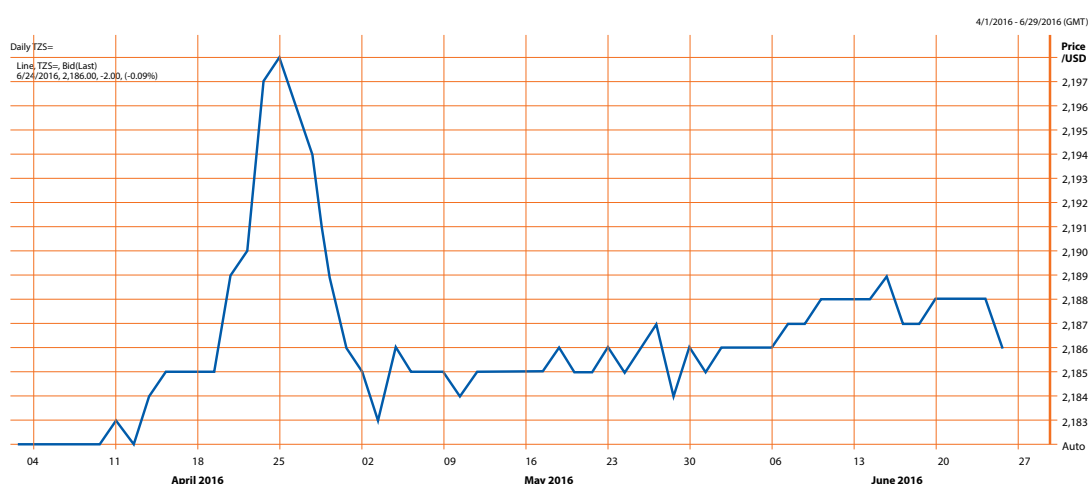
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## Fx Trend: INFLOWS FROM AGRICULTURE LIFT THE SHILLING

By Agnes Mayoro, FX Trader

Local currency pair rallied against the dollar to trade to the highs of TZS 2,203 from the close of TZS 2,186.5 the previous quarter as importers rushed in to take advantage of the shilling appreciation at the end of Q1. Nevertheless, the central bank continuous participation in the Interbank Foreign Exchange Market (IFEM) for the liquidity management gave support to the local unit. The shilling thus, settled at a TZS 2,190 to every dollar for most of the time during the quarter under review. Market forces attempted to break the support at TZS 2,190 level ahead of the government financial year end however, inflows from agriculture buoyed the currency pair. The endeavor was also halted by the liquidity situation in the market as most banks enter the market to sell dollars and obtain local currency.

IFEM traded a total volume of \$396 million against USD from \$327 million the previous quarter. In comparison to same quarter in previous years, IFEM recorded \$203 million and \$198 million in 2015 and 2014 respectively. This increase seen yoy could mainly be a contribution of rise in commodity prices on imports. Despite the current stability seen in the USD-TZS pair during the quarter under review, medium to long term period we still expect the local unit to depreciate, however at a slower pace compared to that seen in 2015. This is on Zanzibar political uncertainty and continued importation ahead of benefits to be seen from the current industrialization initiatives by the government which are expected to improve our exports and reduce imports which in the long run will support the currency despite reversing oil prices and inflation numbers.



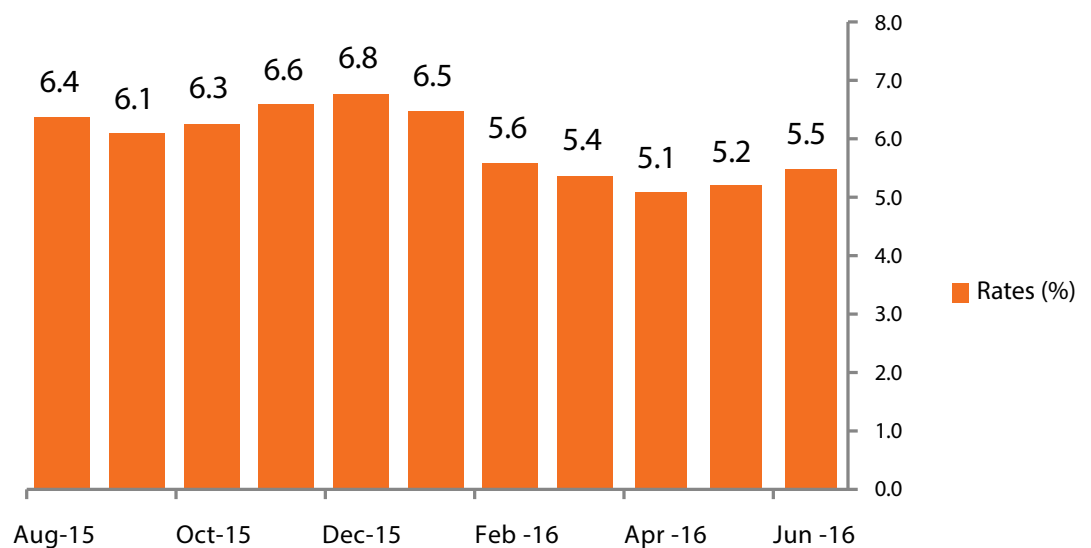
	Open	Low	High	Close
Q2	2,187	2,187	2,203	2,190
Q1	2,160	2,160	2,190	2,186

## Inflation Trend: HIGHEST RECORDED SINCE FEBRUARY 2016

By Grace Mponeja, ALM Dealer

Annual inflation in June 2016 increased slightly to 5.5% YoY from 5.4% YoY in March 2016. This is the highest recorded since February 2016 and it is mainly boosted by the increase in food cost. Inflation is still expected to remain within single digit in the range of 5-6% in the next quarter as result of reduction in power tariffs and the continued low global oil prices. However, with food being the largest component in the consumer price index the weather related shocks continue to pose a risk to pushing inflation above base line.

### Inflation Trend

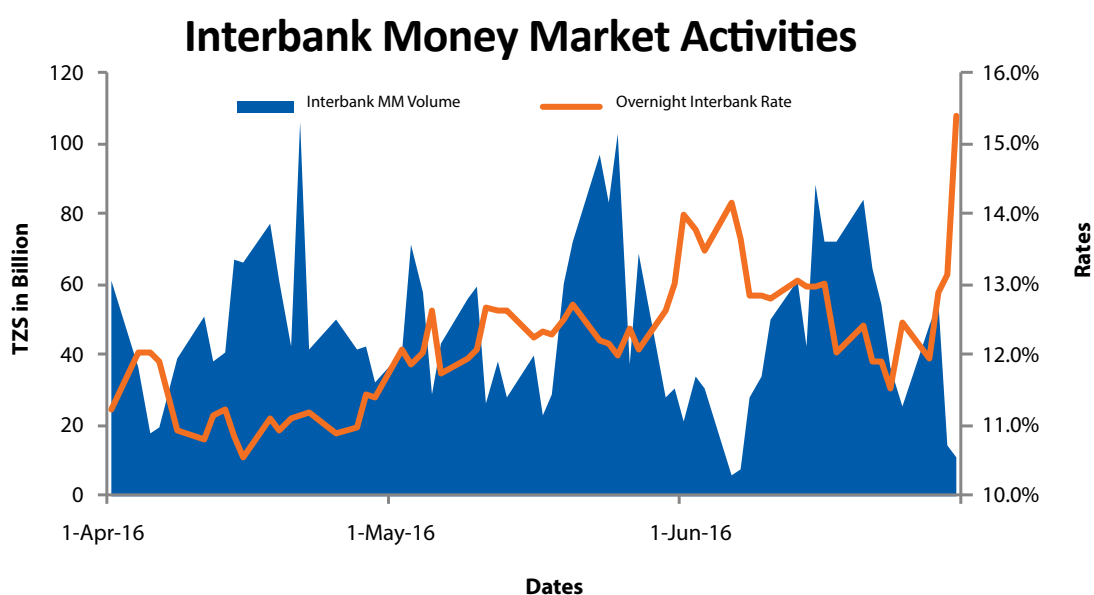


Source: National Bureau of Statistics

## Interbank MM Activities and Rates: ACTIVE MARKET, DOUBLE DIGITS OVERNIGHT RATES

During the quarter under review, the money market witnessed improved interbank activities with traded volumes totaling to TZS 2.99 trillion. This is about 85.57% growth YoY. The overall overnight weighted average rates leveled at 12.1% in Q2 2016, the same to what was recorded in Q2 2015.

The graph below depicts that during days of increased market activity level, the rates show a declining trend and bounced back up when the activity level reduced. Hence we anticipate a downward trajectory in rates in Q3 as the market expects the government to start spending for the new financial year of 2016/2017 and this improved liquidity will in turn steer up market activities.



Source: Bank of Tanzania



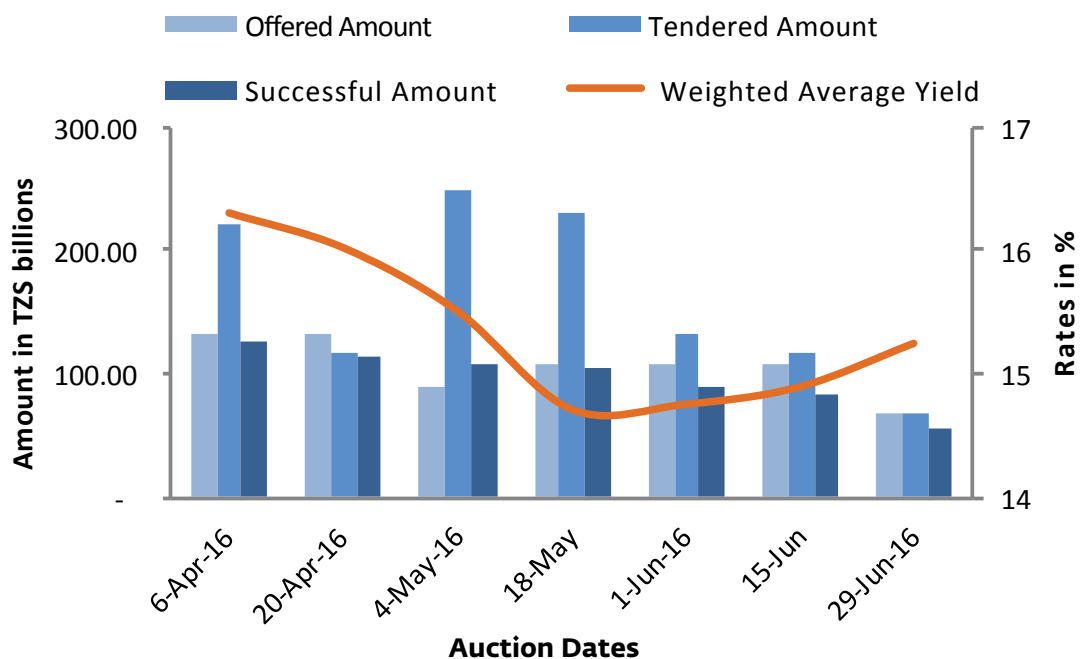
## Fixed Income Securities Trend:

By Samira Saleh, Senior ALM Dealer

### Treasury Bills: YIELDS CONTINUE TO FALL QUARTER ON QUARTER

The oversubscribed T-bill auctions during the quarter under review indicate investors' significant demand for the short term government securities. However, in all the auctions the successful amount taken was less than what was tendered. Consequently, the overall weighted average yield for treasury bills declined by 156bps from 16.81% in Q1 2016 to 15.25% in Q2 2016. This shows, the government improved tax collection has resulted in less borrowing from the market which meant the rate were contained. Nonetheless, in comparison to the same quarter last year, the overall yield has significantly improved by 642bps as it stood at 8.83% in June 2015.

#### Treasury Bills market



#### TREASURY BILLS AUCTIONS SUMMARY

	Amount TZS Billions
Amount Offered	747.50
Total Tendered	1,132.33
Successful Amount	679.02
Current Weighted Average Yield	15.25%

Source: Bank of Tanzania

# Treasury Bonds: IMPROVED INVESTORS' APPETITE; SHRINKING YIELDS ACROSS ALL TENORS.

## 1. Primary Market

In the primary bond market, most investors' appetite was not met as the government took a smaller amount than what was offered and tendered in all auctions, with the exception of 15-Yr bond. During the period under review, the Bank of Tanzania conducted six Treasury bond auctions of which, overall, all auctions were oversubscribed except for the 2-yr and 7-yr bond. 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 costs and still be able to support its budget from internal resources such as tax revenues. Below is the summary of all primary auctions held in Q2:

TREASURY BONDS AUCTIONS SUMMARY					
	2-year (7.82%)	5-Year (9.18%)	7-Year (10.08%)	10-Year (11.44%)	15-Year (13.50%)
Amount Offered (TZS Mn)	83.10	49.60	101,700.00	34,849.20	40.00
Total tendered (TZS Mn)	58.44	97.86	85,645.00	90,989.14	87.07
Successful Amount (TZS Mn)	58.41	49.60	29,622.60	34,821.70	79.00
Current Weighted Average Yield	17.2897%	17.0666%	17.4594%	17.9576%	18.7473%

**Source:** Bank of Tanzania

## 2.Secondary Market

In the second quarter there was an increased turnover in the secondary bond market by about 86.7% Q-o-Q. A total of TZS 201.35 billion worth of Treasury bonds exchanged hands in Q2 2016 rising from TZS 107.84 billion recorded in Q1 2016 and TZS 82.45 billion in Q2 2015. This is mainly attributed to an emergent awareness of financial markets together with the investors' desire that was experienced in both short and long term government securities in the quarter.

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

GOVERNMENT BONDS TURNOVER						
	2 YEARS (7.82%)	5 YEARS (9.18%)	7 YEARS (10.08%)	10 YEARS (11.44%)	15 YEARS (13.50%)	Total
Amount traded (TZS in BN)	15.12	32.64	81.56	32.13	39.90	201.35

**Source:** Dar es Salaam Stock Exchange

## Regional Partnerships: INVEST IN BUSINESS- CRITICAL INFRASTRUCTURE

By Amour Muro, Assistant Relationship Manager

The East African Community's (EAC) drive to integrate member countries has been increasing year over year. Intra-EAC trade growth from less than 10% to 26% within the last decade alone is a testament to the efforts being made by the bloc to increase free movement of persons and labor provisions enshrined in the Common Market Protocol. Today, perhaps the most tangible representation of EAC regional integration efforts is the focus on infrastructure development aimed at easing pressure on the region's existing transport corridor. The African Development Bank (AfDB) recently approved the 2016–2020 concessional resource assistance package for the country worth over \$1.1bn for infrastructure development and better governance. This loan is expected to be used mainly to fund infrastructure projects in the transport and energy sectors to promote domestic and regional transport connectivity, while improving access to reliable, affordable and sustainable electricity. This is in line with the government budget plan.

There is an estimated \$30bn for railway projects in Africa. The \$900m standard gauge central railway line project between Rwanda and Tanzania, and the \$3.2bn railway project in Kenya to link the country to landlocked neighbors including Rwanda and Uganda are examples of such projects. In addition, there is a planned new East African highway connecting Kenya, Tanzania, and South Sudan. The region is making strides in eliminating the barriers to trade associated with infrastructure. Subject to completion, these high profile projects have the potential to transform business within the region by easing road passenger traffic between EAC countries of more than 4 million passengers per year with an estimated 15,000 kilometers of roads.

Other EAC projects include the Tanzania-Uganda \$4bn Kabale-Tanga oil pipeline; a move that would connect land-locked Uganda to foreign markets. With an estimated capacity of 200,000 barrels a day by 2020 and envisaged employment of 15,000 people in Tanzania and Uganda, which include 5,000 direct jobs during the life of the project, the opportunities created here and other services will be enormous for the region.

Thus while great steps are being made in fundamental policy harmonization such as convertibility of currencies, monetary policies, free labor market etc. infrastructure development today remains a spotlight within the bloc.

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# The NMB Bond is now listed on the Dar Es Salaam Stock Exchange.

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**TZS20<sub>bn</sub>**  
AMOUNT REQUESTED

**1811**  
APPLICATIONS RECEIVED

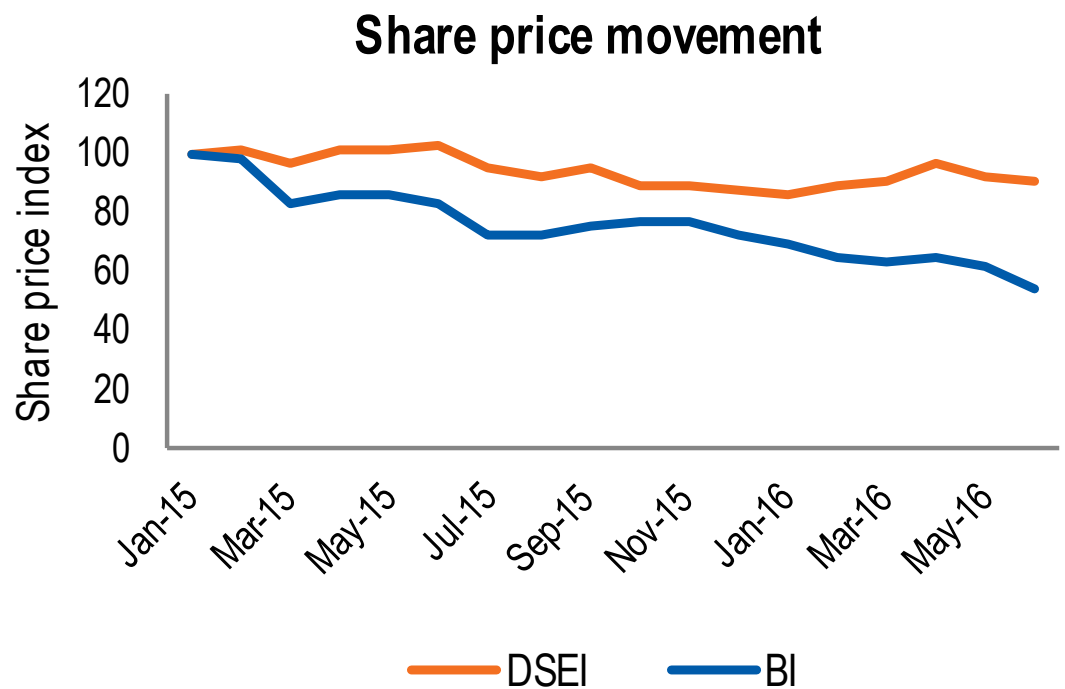
**TZS41<sub>bn</sub>**  
AMOUNT RECEIVED

**107%**  
OVER SUBSCRIBED

# Equity Market Analysis: STRONG INVESTOR APPETITE

By Caroline Yambesi & Anna Mwasha, Strategy & Special Projects

Dar es Salaam Stock Exchange (DSE) saw an uptick in volumes traded in the quarter under review. This followed the publishing of 2015 annual results and subsequently dividend payments by listed companies.



In an effort to increase the tax base in the 2016/2017 budget, the Income Tax Act CAP 332 was amended to remove tax exemptions on disposal of shares. This resulted in a further increase in trading activities as well as a decline in the DSEI index as investors looked to exit the market before the amended Act was to be enforced on 1 July 2016.

## HIGHLIGHTS

### 1. NMB bond Oversubscribed

The NMB retail bond received an overwhelmingly positive response from investors and was oversubscribed by 107%. The bank received 1,811 applications worth TZS 41.4 billion (\$18.9 million) with applications surging in the last week of the offer. Upon seeking and receiving approval from the CMSA to further increase the 'Green-shoe' option, the bank accepted all received applications



worth TZS 41,406,364,000, which is double the amount it had initially intended to raise. The bank had requested to raise an amount of TZS 20 billion (\$9 million) through its first ever retail bond.

## **2. DSE IPO Oversubscribed**

The sale of shares in Dar es Salaam Stock Exchange (DSE) to the public was oversubscribed by nearly five times. The bourse received applications worth TZS 35.77 billion (\$16.4 million) for the 15 million shares on offer worth a total 7.5 billion shillings. Foreign investors accounted for about 70% of buyers. The DSE was granted approval by the CMSA to take an extra of 2.6bn, the balance would be refunded to applicants. DSE intends to list its shares on the market's main segment for trading on July 12, 2016.

## **UPCOMING**

1. Bank M looks cross-list on the Dar es Salaam and Nairobi stock exchanges (DSE & NSE)
2. Possible listing of Tanzania Postal Bank on the DSE.



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