

THE MARKETDIGEST

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Economic Analysis: GROWTH TREND ABOVE AFRICA AVERAGE

By Gladness Deogratias, Head of FX Trading

According to the World Bank, economic growth in Sub-Sahara African is likely to slip to 1.4% from 3.4% recorded in 2015. Although this trend will most likely reverse in 2017, the growth seen in Tanzania has been above Africa average (4.4%) along with sustained economic development. Thus, GDP growth forecast for Tanzania has been revised up by 0.3% from 6.9% provided in April to 7.2% driven by strong growth in manufacturing, construction and port services.

Fiscal deficit is expected to expand in the interim nevertheless, the outlook beyond 2017 is for a contraction of the deficit. Expenses will be incurred by the construction of infrastructure projects including the standard gauge railway and ports to improve capacity and services. Currently, the funding will mainly be through external and internal debt. However, over the long run efficient revenue collection will pick up through improved tax collection measures and balancing of capital investment hence narrowing of fiscal deficit. Current account will get support from growing manufacturing industry where exports and re-exports will lead tapering of deficit to 6.3% of GDP as well as lower capital goods import. According to Bank of Tanzania, exports surged by 19% to USD 2.79billion in the first half of 2016 compared to same period in 2015. Main export commodities have been tobacco, minerals (gold & diamond) and manufactured goods. The resource-based manufacturing is envisioned to continue registering firm growth, aided by a more reliable power supply, the availability of domestic gas and Tanzania's growing integration with regional markets particularly in East Africa. However, Agriculture will likely be constrained by inadequate infrastructure and weather-related shocks, although cash crops are likely to be slowly expanded as farmers' access to higher quality

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inputs and new markets improves.

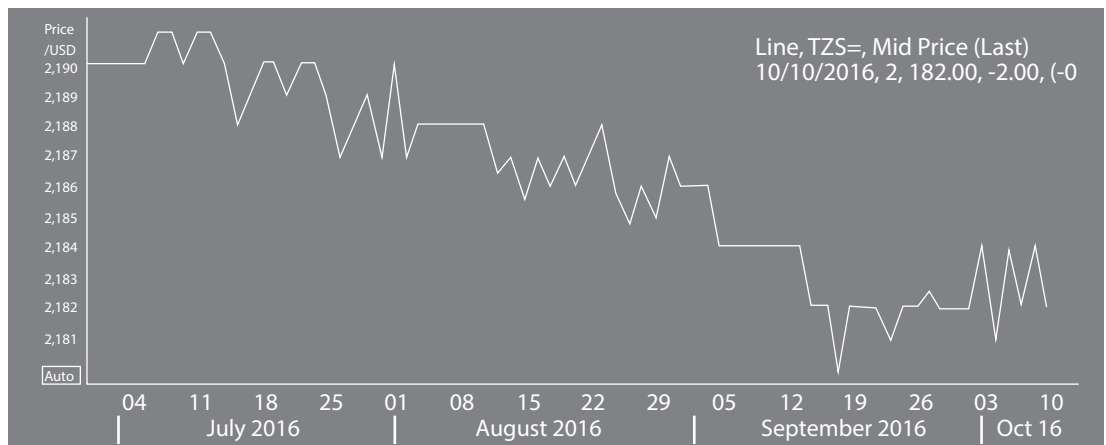
A country with a stable currency and whose market is in expansionary momentum is always attractive to investors. The Bank of Tanzania is expected to slow down and potentially put brakes on rapid currency depreciation through tight monetary policy stance. This has also been aided by continuous fall in the import bill as recorded in September (\$233.1 Million) compared to June (\$1003.40) coupled with the government banning coal importation. The foreign exchange reserves have strengthened in recent months sufficient to cover about 4.2 months of projected imports of goods and services. Furthermore, BOT is also expected to soon begin the use of interest rates based system for monetary control even though price stability will remain vulnerable to supply side shocks.

Fx Trend: CONTINUED AGRICULTURE FLOWS AND TOURISM FLOWS SUPPORT THE SHILLING

By Agnes Mayoro, FX Trader

The Bulk Petroleum Procurement Agency has changed the oil importation system. Going forward, only local Oil Marketing Companies (OMCs) will be allowed to bid for importation of oil in bulk and per product allowing more local OMCs to participate in the tenders. This is expected to lower cost to consumers and generate more income tax for the country. We do not expect this change to have an impact on neither the volumes to be imported nor the prices and subsequently less impact on the USD/TZS trading levels.

Looking on the technical analysis space, we saw USDTZS pair close with the bearish candle in the third quarter after forming a shooting star in the previous quarter. Next support and resistance levels come in at 2160 and 2191 respectively before moving to next support and resistance levels of 2128 and 2203 respectively. It will be interesting to see if the expected agriculture inflows from the export crops. Primarily cashewnuts and liquidity tightness towards year end will take the pair to 2160 and 2128 levels per USD. Currently, the local unit has been registering LOWER Lows and LOWER Highs as the graph below depicts.



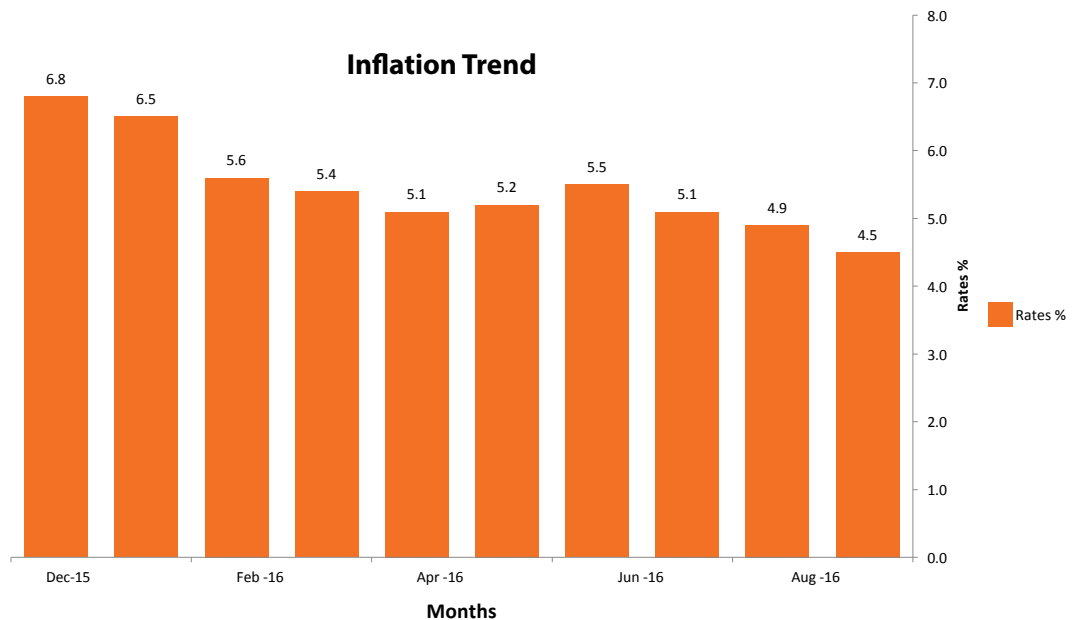
Source: Reuters

	Open	Low	High	Close
Q3	2,190	2,180	2,191	2,182
Q2	2,187	2,187	2,203	2,190

Inflation Trend: AT THE LOWEST SINCE MAY 2015

By Samira Saleh, Senior Dealer ALM and Fixed Income

The annual inflation in Sep 2016 decreased to 4.5% YoY from 5.5% YoY in June 2016. The decrease in inflation since June 2016 can be attributed to a decline in prices of items under food, transport and energy sub-groups on MoM basis. Furthermore, the purchasing power of 100 Tanzanian Shillings has reached TZS 97.04 in September 2016 from TZS 62.88 in September 2015, indicating that consumers can buy greater number of items than they would have been able to buy in September 2015 for the same unit of TZS. Tight monetary policies will continue to put downward inflationary pressure in the coming quarters and inflation is still expected to remain within single digit.



Source: National Bureau of Statistics

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TENOR	TZS	USD	GBP	EUR
1 Month	7.50%	1.00%	0.50%	1.00%
2 Months	9.00%	1.25%	0.60%	1.15%
3 Months	10.00%	1.50%	0.75%	1.25%
6 Months	11.00%	1.75%	1.00%	1.30%
1 Year	12.00%	2.00%	1.50%	1.50%
2 Years	13.00%	2.50%	1.65%	1.65%

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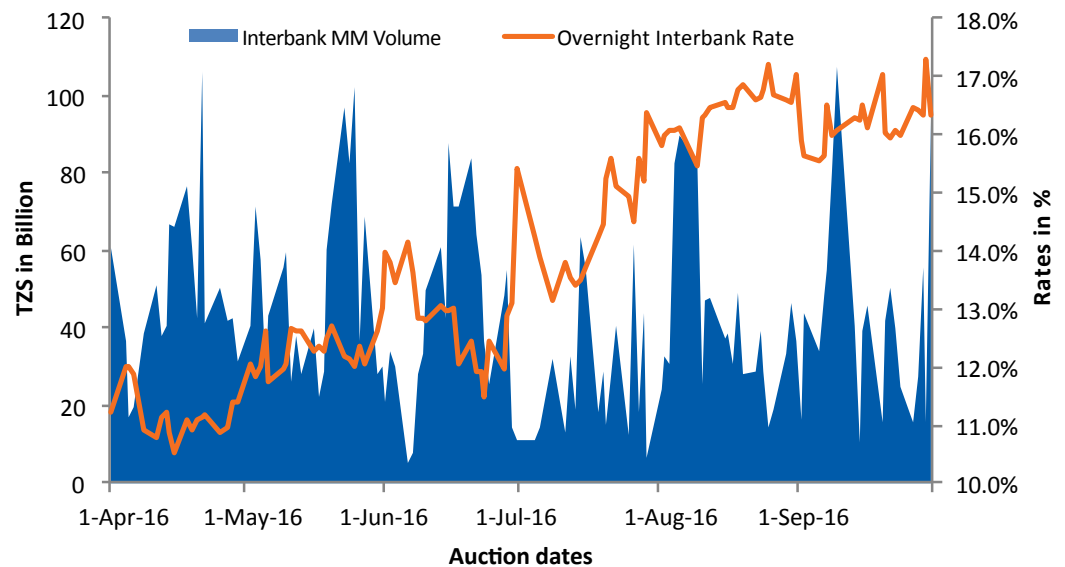
Interbank Money Market Activities and Rates: SQUEEZED MARKET, DOUBLE DIGITS OVERNIGHT RATES

By Michael Millinga, Head ALM and Fixed Income

Money Market witnessed a decreased interbank activities QoQ by 23% with traded volumes totaling to TZS 2.31 trillion in Q3 from TZS 2.99 trillion recorded in Q2. However, lower volume of TZS 1.66trillion was recorded in the same quarter last year.

During the quarter under review, overnight weighted average rates showed an increasing trend with low of 13.1% and high of 17.3%. This scenario was a result of liquidity tightness in the market which emanated from government fiscal year end obligations.

Interbank Money Market Activities



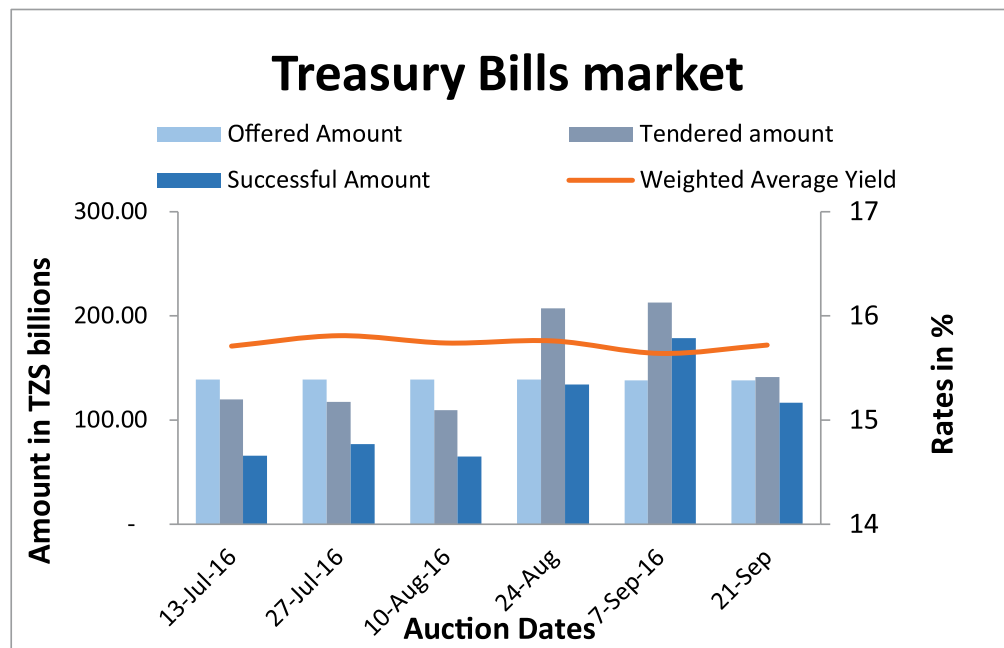
Source: Bank of Tanzania

Government Securities Trend:

By Michael Millinga, Head ALM and Fixed Income

Treasury Bills: YIELDS RISE SLIGHTLY ON THE BACK OF TIGHT LIQUIDITY IN THE MARKET

Most of the T-bill auctions during the quarter under review were undersubscribed indicating shortage of liquidity in the market. Investors' are demanding significantly higher return by bidding at higher rates in the auctions however government has been reluctant and resulted in accepting less than what is tendered in all the auctions. Thus, the overall weighted average yield for T-bills rose by 0.47% from 15.25% in Q2 2016 and further up to 15.72% in Q3 2016. However, in comparison to the same quarter last year, the overall yield has significantly improved by 689bps as it stood at 8.83% in June 2015.



TREASURY BILLS AUCTIONS SUMMARY

	Amount TZS Billions
Amount Offered	832.00
Total Tendered	909.14
Successful Amount	636.79
Current Weighted Average Yield	15.72%

Source: Bank of Tanzania

Treasury Bonds: SUBDUED INVESTORS' APPETITE AS LIQUIDITY SQUEEZE BITES.

1. Primary Market

Similar to Treasury bills auctions, in the primary bond market, most investors' appetite was significantly subdued following unpopular liquidity situation in the market. Most of the bids were also on the higher side of the curve. The government was thus disinclined to mop liquidity. With the exception to a 5-year bond auction, in all other remaining tenors, the government took less than a half of what was tendered. The weighted average yields in all tenors consequently increased slightly 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. Below is the summary of all primary auctions held in Q3:

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)	128.42	104.50	138.46	111.00	70.00
Total tendered (TZS Mn)	48.19	70.82	25.31	78.75	51.85
Successful Amount (TZS Mn)	21.23	70.82	8.18	22.31	8.00
Current Weighted Average Yield	17.3857%	17.7838%	17.2897%	17.6349%	18.9405%

Source: Bank of Tanzania

2.Secondary Market

The quarter under review saw a Q-o-Q decreased turnover in the secondary bond market by about 86.7%. A total of TZS 119.07billion worth of Treasury bonds exchanged hands in Q3 2016 decreasing from TZS 201.35 billion recorded in Q2 2016 and TZS 123.05bn in the same quarter last year. This again was mainly attributed by inadequate liquidity in the quarter under review.

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

GOVERNMENT BONDS TURNOVER TZS BILLIONS						
TENOR (YEARS)	2 YEARS	5 YEARS	7 YEARS	10 YEARS	15 YEARS	Total
Amount traded (TZS in BN)	9.00	16.52	23.42	39.39	30.74	119.07

Source: Dar es Salaam Stock Exchange



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AgriBusiness: KEY TO TANZANIA'S INDUSTRIALIZATION

By Nuruh J. Mghwira, Assistant Research Analyst

Tanzania envisions to become a middle class and semi-industrialized country by 2025. At the heart of Tanzania's economic transformation, the current Government has prioritized industrialization to be the key driver of such change. With that in mind, focus in developing the agricultural sector becomes inevitable to be source of input to these industries.

Tanzania agricultural sector plays a central role in food security, jobs and wealth creation. The sector employs over 60% of the population where women form the largest part of its labor force as it was reported in the National census report, 2012. According to the 2016 budget speech as presented by the former Minister of Agriculture, Livestock and Fisheries, the sector contributed about 29% to country's GDP in 2015. Further, main export crops such as tobacco, coffee, cotton and cashew-nut form major forex earnings to the country. In 2015, these export crops have collectively contributed total of USD 698.8 mil to the national foreign earnings.

However, there are a number of challenges that deter Tanzanian agricultural sector from growing. These include: lack of well-organized farmer associations, shortage of sufficient and proper storage facilities that can reduce both transport and transactional costs. The sector currently faces limited use of modern farming technologies such as harvester to reduce post-harvest losses as well as struggles to have formal trading platforms such as warehouse receipt system, collateral management and/ or contract farming. This limited processing capacity denies Tanzania export earnings.

Recent developments especially those driven by both Government and private sector show good progress towards reviving the agricultural sector in Tanzania. Some of these include the determination of current Government to reduce taxes and fees in crops; the National Assembly passed the Agricultural Research institute Bill in September 2016. This should promote crop protection, leading to effective administration of trade, commerce and export of agricultural produce.

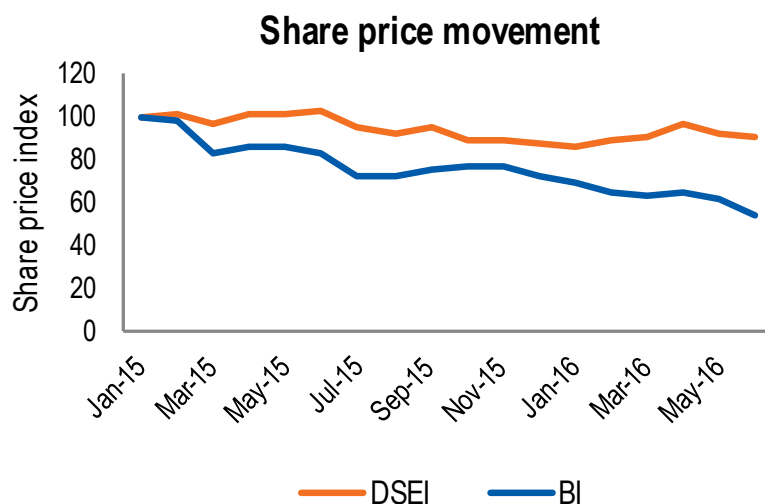
We see a positive trend towards investments in Agriculture, coupled with current Government determination, which should spur the much needed growth in the sector and the fulfillment of the Tanzanian vision 2025.

Equity Market Analysis: STRONG INVESTOR APPETITE

By Caroline Yambesi & Anna Mwashwa, Strategy & Special Projects

There was an increase in trading activity at the Dar es Salaam Stock Exchange (DSE) mid-year and at the beginning of the third quarter, with a turnover of about TZS 4.8tn at the end of June/ early July. However, trading activity slowed down towards the end of the quarter to a total turnover of only about TZS 1.21tn at the end of September.

The DSE's total market capitalization decreased by about 50 basis points to TZS 21.6tn compared to TZS 21.7tn recorded at the end of the second quarter.



UPCOMING

1. Telecom companies to list on the DSE

An amendment to the finance bill passed earlier this year requiring all telecom companies in Tanzania to float 25% of their shares on the DSE to domestic investors by the end of 2016.



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A man with a beard, wearing a dark leather jacket over a white shirt and a maroon tie, is smiling and looking to his right. He is holding a white smartphone in his hands. The background shows an airport tarmac with a large white airplane and another smaller plane in the distance under a clear sky.

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