

THE MARKETDIGEST

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Economic Analysis: TANZANIA AMONGST FEW GROWING AFRICAN COUNTRIES

Fredrick Mbuya, FX Trading Desk

Growth in the Sub-Saharan Africa region has seen recovery, although not sufficient to raise per capita income. The latest data by World Bank in the Africa's Pulse Report shows that Tanzania is amongst the few African countries who are seeing growth rates above 5%. The country's GDP continues to fair higher even amongst its East Africa neighboring peers, mainly contributed by sustained public investments in various infrastructure projects specifically in the Tanzania Uganda Pipeline and Standard Gauge Railway. This has gone hand in hand with a loose monetary policy and increased Government spending which has improved the liquidity situation in the market.

Lowering of the discount rates from 12% to 9% in August coupled with a liquid market were expected to boost credit growth as cost of funding drops. However, credit to all major economic activities grew at a slower pace in the year ending June, 2017 compared to the same period in 2016.

The Government's continued capital expenditure on infrastructure projects such as roads and power generation will put further emphasis on the fiscal revenue collection efforts resulting to tight fiscal policy. Likewise, the country's budget deficit is expected to increase in the short run as tighter tax regulations are likely to squeeze profitability and limit expansions. Thus, the Government will likely turn to domestic banks to secure funding which could potentially lead to a rise in the cost of debt servicing. However in the long run as tax collection becomes the new norm; the government should be able to finance its debt sustainably. Recently, TRA reported uptick in the tax revenues mainly contributed by PAYE and Customs collections.

Progress seen in major development projects will demand an increase in capital imports such as industrial materials, machinery and vehicles. This is will to bolster the country's capital import bill which will ultimately widen the current account deficit owing to the ongoing ban of export of pulses. It is expected that this deficit will mainly be funded through foreign direct investments which of late have also been very limited. Perhaps, the improvement in infrastructure and marketing in the Tourism sector will attract more foreign arrivals leading to an increase in revenue in that sector. Additional sources of revenue could come from Agri produce, particularly cashew nuts which has emerged as a new savior in the economy as it contributes heavily on the country's foreign receipts. In a report by the Food and Agriculture Organization; it was stated that about 20% of the African Cashew nuts come from Tanzania and this season projects about USD 340 Million in export receipts out of the 250,000 tons expected harvest.

The start of the export season in Coffee, Cotton and Tobacco in the 3rd quarter coupled with FX inflows from tourism has led to local currency stability. The Consumer Price Index has also been relatively stable within a single digit despite the persistent draught experienced across the country which could in the future exert pressure on inflation.

TREASURY

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

For enquires: TreasuryFO@nmbtz.com

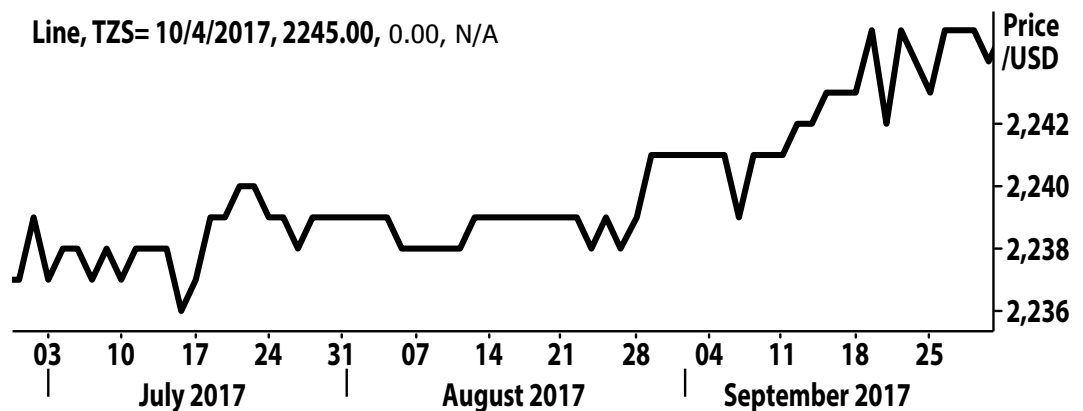
Fx Trend: MINOR DEPRECIATION OF LOCAL CURRENCY

Agnes Mayoro, FX Trading Desk

The local unit traded flat against the green buck to depreciate by only 0.3% from a depreciation of 0.2% in the previous quarter. Volumes traded in the Interbank Foreign Exchange Market slightly increased to USD 441.96Million from USD 439.07Million from the previous quarter.

The slight depreciation was on the back of demand for dollars from government spending and Vodacom IPO that outweighed cotton and coffee exports receipts. Market opened at TZS 2237 to trade at the high of TZS 2245 and close at TZS 2244 per dollar.

Cashew is the second largest cash crop worthy about USD340 Million (should the average price per tonne remain the same) is expected to kick off in its season the coming quarter. In addition, the market still expects about 30% of the tobacco season value that was not auctioned to be auctioned in the coming quarter. This coupled with the expected slowed demand for dollars in the last quarter of the year, will demand for a stable shilling to year end.



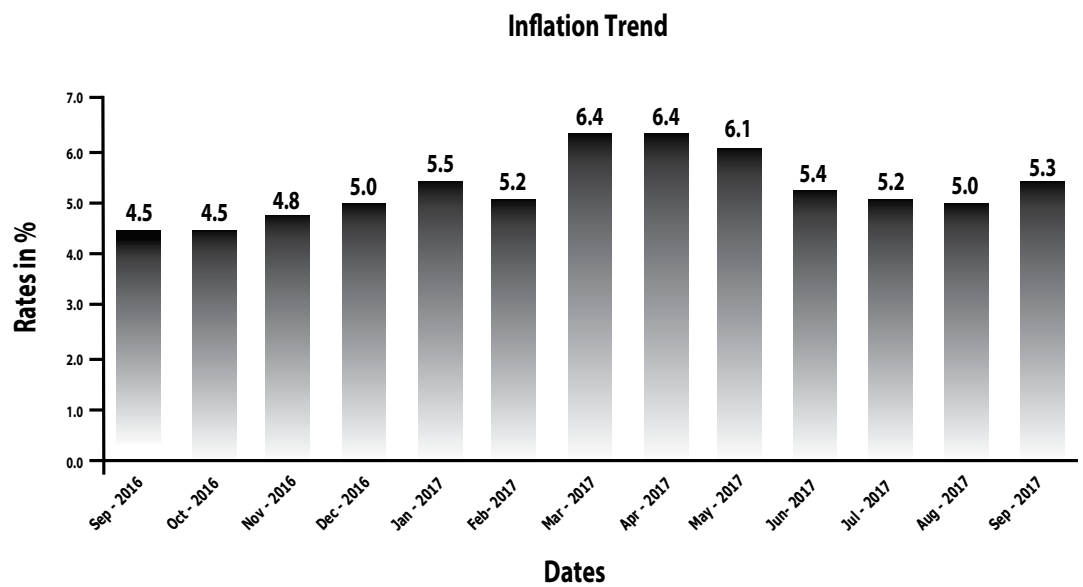
Source: Reuters

Inflation Trend: HOVERING AROUND 5%

Catherine Masanje, Treasury Sales & Structured Products Desk

The annual inflation in Sep 2017 slightly dropped to 5.3% YoY from 5.4% YoY in June 2017. The drop in inflation was attributed to a decrease in prices for food and non-alcoholic beverages in line with an improved food supply from a strengthening agriculture sector.

Inflation is forecasted to remain around the medium term target of 5%, buoyed by a number of factors including improvement in food supply and stable power supply, sustained prudent monetary and fiscal policies, continued stability of global oil prices and the value of the Tanzanian shilling against the major currencies.



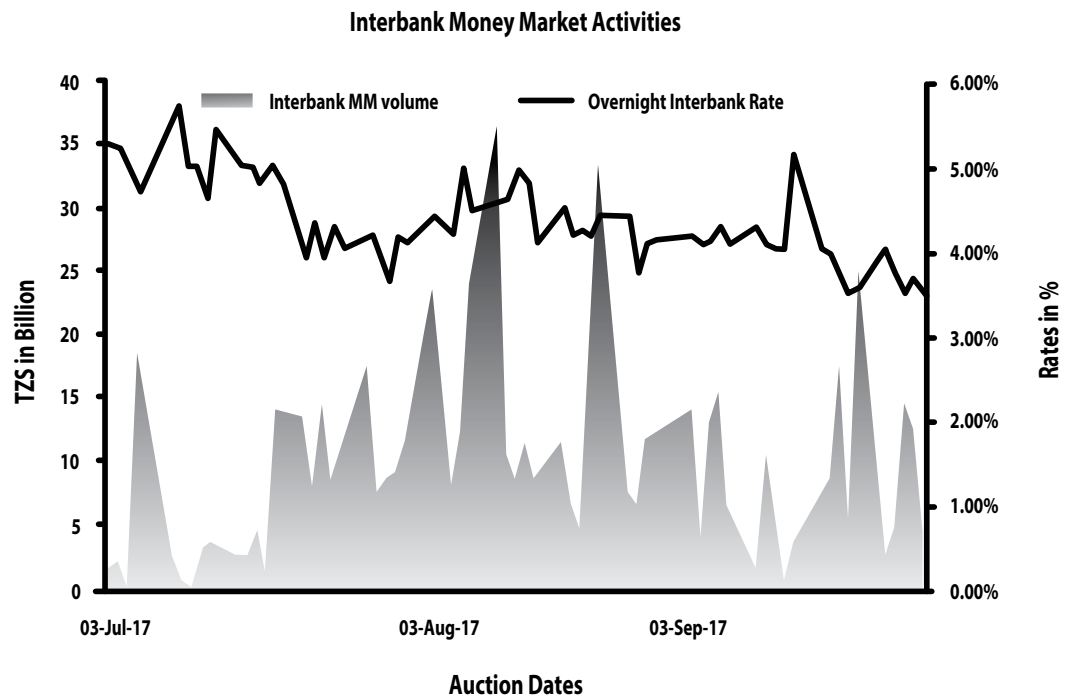
Source: National Bureau of Statistics

Interbank MM Activities and Rates: APPROPRIATE LIQUIDITY LEVELS IN THE MARKET

Samira Saleh, Fixed Income & ALM Desk

Money markets witnessed a significant increase in activities by 27.3% Q-o-Q from TZS 455.01B traded volumes in Q2 2017 to TZS 625.85B in Q3 2017. This is ascribed to improved liquidity mainly in big banks as a result of government spending and BOT taking less than the matured and offered amounts in government securities auctions. However, a higher volume of TZS 2.31T was recorded in the same quarter last year. The interbank overnight rates demonstrated a declining trend having averaged at 4.33% in Q3 2017 from 6.22% levels in Q2 2017.

Overnight rates are projected to remain depressed as the Central Bank continues to focus on maintaining appropriate liquidity levels in the economy, while ensuring stability of money market rates.



Source: Bank of Tanzania

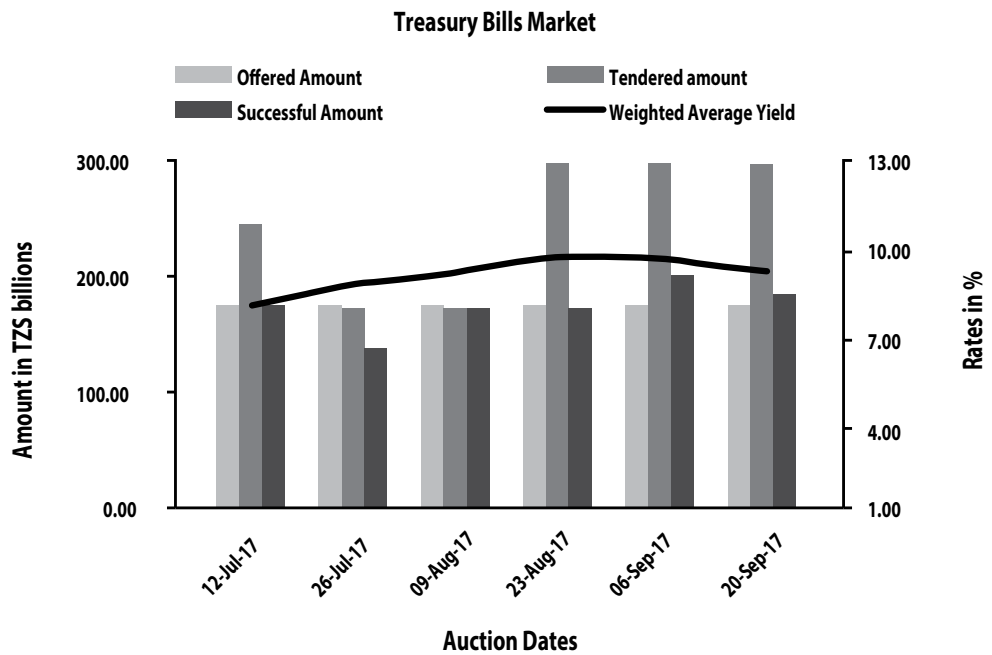
Government Securities Trend:

Government Securities Trend: Grace Mponeja, Treasury Analytics

Treasury Bills: FALLING YIELDS

Oversubscribed auctions during the quarter under review left most investors unfulfilled as the central bank accepted just about the same amount offered. The total recorded bids in the Q3 T-bill auctions were worth TZS 1.91T compared to TZS 1.02T offered by the central bank. The overall weighted average yield stood at 10.30% by end of Q3 2017. However, in comparison to the same quarter last year, the yield has significantly declined by 542bps as it stood at 15.72% in Q3 2016. This aligns with the ongoing Government’s efforts to reduce cost on its domestic borrowing and encourage banks to extend credit to the market.

T-bills overall WAY is anticipated to drop further to a single digit rate as liquidity in the market is forecasted to remain stable and the investors’ appetite in these short term instruments is expected to stay unchanged.



Source: Bank of Tanzania

Treasury Bonds: INVESTORS HIGH DEMAND FOR TREASURY BONDS

1. Primary Market

The appetite for bonds in the primary market in Q3 2017 grew significantly as evidenced by a 353% Y-o-Y increase in tendered bids. The demand for Treasury bonds increased particularly for the tenors between 2-5yrs which indicates that investors prefer short to long term tenured bonds. The weighted average yields in all tenors consequently decreased in comparison to their respective previous auctions. This is in line with oversubscription of the auctions as seen in the table below coupled with the decrease in BOT's appetite to borrow from the public due to improvement in domestic revenue collection, streamlined expenditure and realization of non-concessional borrowing.

TREASURY BONDS AUCTIONS SUMMARY AMOUNT IN (TZS BILLIONS)					
	2-year (7.82%)	5-Year (9.18%)	7-Year (10.08%)	10-Year (11.44%)	15-Year (13.50%)
Amount Offered	168.00	90.00	100.30	111.40	208.80
Total tendered	558.05	120.91	185.21	101.60	280.41
Successful Amount	168.00	58.50	100.30	67.40	206.48
Current Weighted Average Yield	11.7645%	13.9590%	14.2847%	15.7468%	12.4493%

Source: Bank of Tanzania

2. Secondary Market

The quarter under review saw a Q-o-Q increased turnover in the secondary bond market by about 1.91%. A total of TZS 238.60B worth of Treasury bonds exchanged hands in Q3 2017 rising from TZS 234.03B recorded in Q2 2017 and TZS 119.07B in Q3 2016. This is mainly contributed by a growing investors' appetite for government's risk free investments as experienced in both short and long term government securities during the quarter.

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	5	7	10	15	
Amount traded	42.06	48.03	17.90	39.50	91.12	238.60

Source: Dar es Salaam Stock Exchange

Equity Market Analysis: VODACOM SHARES LISTED ON DSE

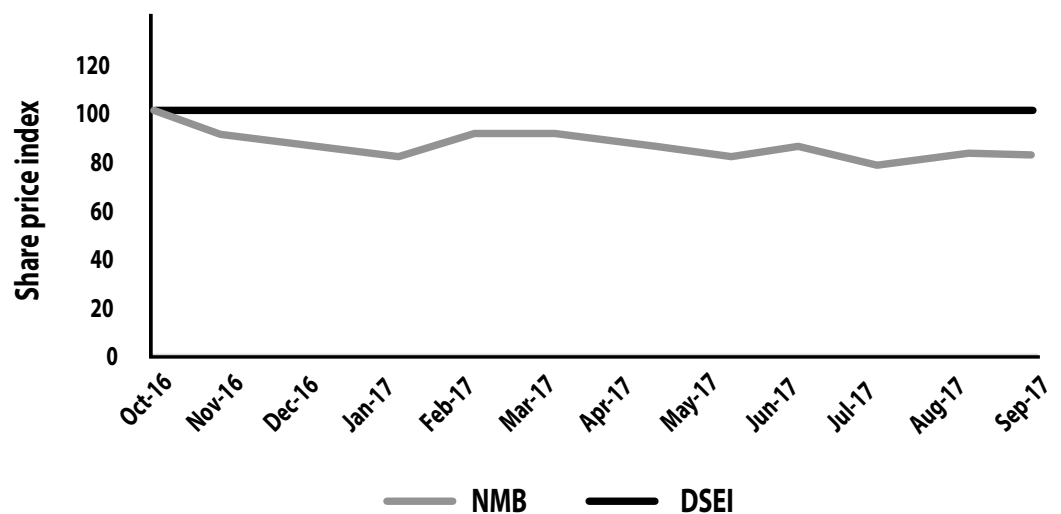
Caroline Yambesi, Strategy & Investor Relations Desk

After a long wait and two IPO extensions, Vodacom Tanzania PLC was finally listed on the local bourse, with the floated amount of TZS 476 billion being the largest ever in Tanzania's history. Hardly two months following the listing, the company announced its first dividend pay out to its shareholders, with each share earning TZS 12.74.

Additionally, on the primary market side, Maendeleo Bank announced its plans to raise TZS 10.6 billion by issuing 17,612,417 ordinary shares at a price of TZS 600 each. The listing aims at supporting the bank's transition to a fully-fledged commercial bank. A successful issue will also enable the bank to move from its current listing in the DSE's Enterprise Growth Market segment to the Main Investment Market segment. The share sale commenced on 18 Sept. 2017 and will last for six weeks until 3 Nov. 2017.

During the third quarter, varying levels of secondary trading activity were recorded at the Stock Exchange. A total market capitalization of TZS 20.3 trillion was recorded at the end of September, a 5% increase from TZS 19.3 trillion at the end of the second quarter.

Share price movement



Financial Inclusion:

MOBILE MONEY CONTINUES TO SPEARHEAD FINANCIAL ACCESS IN TANZANIA

Caroline Yambesi, Strategy & Investor Relations Desk

Did you know that 93% of adult Tanzanians have access to a mobile phone and that mobile networks reach 95% of Tanzanians? Astonishing, right? In the year 2000, none of us would have thought that this would be the case two decades later; it was simply unimaginable. It is through this extensive mobile network that more people have been able to access formal financial services. As a result, Tanzania's level of financial inclusion has increased tremendously over the past decade and now reaches 65%, 7 percentage points higher than the value recorded in 2013, as highlighted in the recently published Finscope 2017 Survey. The Survey was conducted by FSDT in collaboration with the Ministry of Finance (MoF), The National Bureau of Statistics (NBS), Bank of Tanzania (BOT) and other partners.

The 2017 Survey is the fourth of its kind done over the past ten years. It aims at exploring and understanding customer behavior as well as defining the financial needs of Tanzanians. In addition to the published report with quick facts, the Survey comes with a free online resource for further customized analysis. The Finscope Survey offers an important reference point for entities keen to design and sell financial products to the masses, it also raises important points that could enable Financial Service Providers (FSPs) to question and assess the suitability of their products to Tanzanians' needs.

Financial inclusion is a key ingredient for sustainable and inclusive economic growth. Technology, increasingly used by banks and mobile money operators, has become an important catalyst for financial inclusion in Tanzania and Africa in general. In recognizing the importance of utilizing alternative transaction channels to promote financial inclusion, the BOT has smoothed procedures to allow for linkages between banks and mobile money operators. These links have enabled many to transact easily and safely through digital channels.

In efforts to maximize the use of these linkages, many banks have collaborated with MNOs and have developed in-house mobile solutions. Even with these developments however, there is still much to be done to ensure that more Tanzanians trust and utilize formal channels for daily transactions. At present, 43% of adults still prefer to save at home while more than half (69%) choose to borrow from family and friends. The relatively low uptake of similar services offered by banks raises questions on how well the products in the market fit customers' evolving needs. Other factors, such as entry fees and maintenance costs could also explain why people choose to borrow and save at home. Being able to crack this could perhaps assist policy makers and banks to devise better mechanisms to reach the unbanked.

On the bright side however, the rapid expansion and uptake of mobile solutions has taught many of us that the Tanzanian market is full of opportunities, and with the right composition of products, more users will undoubtedly hop onto the formal-financial-channels wagon. For this to unfold, it is crucial for FSPs to continue designing and providing services that are affordable, safe and accessible in order to attract new users.

With a total population of 50+ million people, Tanzania is blessed with a large number of current and future consumers. The country is full of untapped opportunities and has a great potential that we are yet to fully harness. The number of innovative solutions on the rise to solve problems in business, health agriculture and education is quite promising. For that reason, I can confidently say that the country is on the right path towards achieving its financial inclusion targets and eventually economic prosperity.

References:

Finscope Tanzania Report 2017

InterMedia Tanzania Annual FII Tracker Survey Wave 4

The World Bank Group, Tanzania Economic Update, April 2017

EVENT CALENDER

Below government securities will be issued in the coming quarter, however BOT has a mandate to change the calendar accordingly. Inflation Data is released by the National Bureau of Statistics.

Date	Event
4-Oct-17	Treasury Bills Auction
9-Oct-17	September Inflation Data Release
11-Oct-17	7-year Treasury Bond Auction
18-Oct-17	Treasury Bills Auction
25-Oct-17	10-year Treasury Bond Auction
1-Nov-17	Treasury Bills Auction
7-Nov-17	October Inflation Data Release
8-Nov-17	5-year Treasury Bond Auction
15-Nov-17	Treasury Bills Auction
22-Nov-17	15-year Treasury Bond Auction
29-Nov-17	Treasury Bills Auction
6-Dec-17	2-year Treasury Bond Auction
8-Dec-17	November Inflation Data Release
13-Dec-17	Treasury Bills Auction
20-Dec-17	7-year Treasury Bond Auction
27-Dec-17	Treasury Bills Auction

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