



Market Digest

Issue 17 - 2020

Table of Contents

03 Economic Analysis:

- Global Recession Amid Covid-19 Pandemic

06 Market Analysis:

- Improved activities, stable rates in Overnight Interbank Cash Market.
- Oversubscribed T Bills auctions, falling rates.
- Contained Shilling Depreciation Amid A Global Pandemic.
- T Bonds Auctions Significantly Oversubscribed.
- Market turnover increase by 189 percent.

14 Economic Data Issuance Calendar

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Economic **Analysis:**





Global **Recession** Amid **Covid-19** Pandemic

Global Economic
Growth set to
contract by **3%**

The COVID-19 outbreak has sparked urgent questions about the impact of pandemics, and associated countermeasures on the global economy. The virus emerged in the Chinese city of Wuhan in December and has spread to more than 168 countries and territories. The World Health Organization declared the outbreak a pandemic. Over 2.6 million people have been infected by the virus causing 187,000 deaths and 712,000 recoveries. Policymakers are in uncharted territory, with little guidance on what the expected economic fallout will be and how the crisis should be managed in order to rescue the economy. According to the most recent IMF report, global economic growth has been revised down by 3% from a global GDP expansion of 3.3% forecasted back in January 2020. Citing the drop as a result of underutilization of labor and capital, an increase in international trade costs, a drop-in travel services, and shocks to both domestic demand and supply. Revisions are likely to continue as the ultimate size and persistence of the economic impact remains unknown. Similar to the 2008 financial crisis, Gold being a safe haven performed well and reached a 7 year high at \$ 1,703 per ounce before crushing at the same time as equities to \$1,469 per ounce. The yellow

metal has since recovered and the market appears to be convinced that it is on an upward trajectory. However, there are some negative signals for the market such as reduced jewelry buying in India and China as lockdowns persist and production shortfall. On the other hand, Crude oil prices seem to have taken a downward trend, trading at the lows of \$16 a barrel for the first time in 21 years. Severe restrictions on travel have resulted in subdued demand as well as price wars between Saudi Arabia and Russia. Assuming that travel restrictions are erased in the second half of the year, it is expected that global oil demand in 2020 will fall by 9.3m barrels a day versus 2019.

According to the latest Africa's Pulse, the World Bank's bi-annual analysis of the state of African economies, the COVID-19 (coronavirus) outbreak has set off the first recession in Sub-Saharan Africa in 25 years, with growth forecast at -5.1% in 2020 from a modest 2.4% in 2019. GDP growth in oil exporting Sub-Saharan countries is projected to decline the most followed by other resource intensive countries (mining) such as South Africa and lastly tourism dependent countries. Economies in Sub-Saharan Africa (Tanzania included) could lose between \$37 billion and \$79 billion in

output losses in 2020. According to a new World Bank regional economic analysis, the region could face a severe food security crisis, with agricultural production expected to contract between 2.6% and 7%.

According to the Bank of Tanzania monthly economic review, the impact of Covid-19 on Tanzania's economy was mild up to February 2020 as countries had not imposed trade restrictions and lockdowns. Tanzania reported its first imported case in March, the country had only 5 confirmed cases up to the end of March 2020 which is quite a small number. Economic activities continue but with all the necessary precautions in mind and no lockdowns as of yet. However, the impact on the economy became more visible in March 2020 once the spread of the pandemic disease intensified towards the end of February 2020. The balance of payments recorded a surplus of USD 560.3 million in the year ending February 2020, compared to a deficit of USD 682.7 million in the same period last year. Gross official reserves are sufficient to cover 6.4 months of projected imports of goods and services. Interest rates on loans and deposits by banks sustained a downward movement, partly

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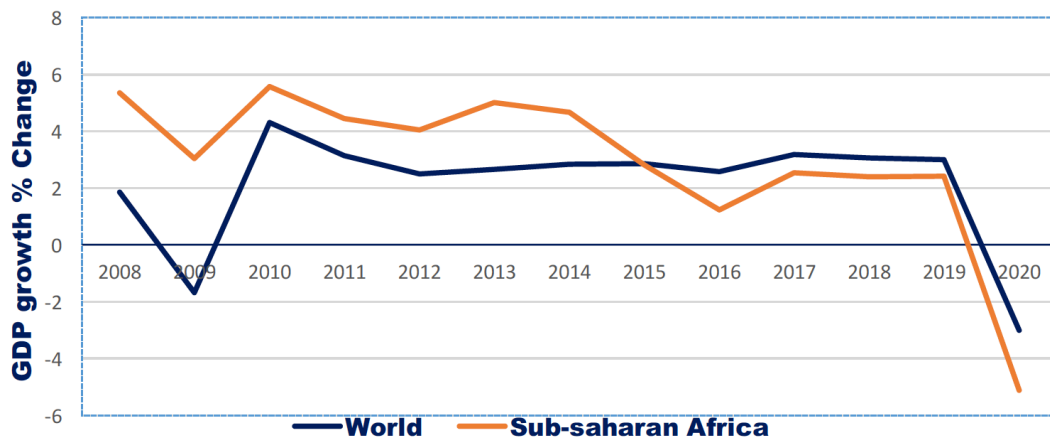


attributed to accommodative monetary policy and measures by the Government to improve business environment. Overall lending rate in March 2020 declined to 16.96% from the 17.28% recorded in February 2019. The deposit rates averaged at 7.18% in March 2020 down from the 7.92% recorded in the corresponding period 2019.

Tanzania's annual headline inflation rate for March 2020 decreased to 3.4 percent from 3.7 percent recorded in February this year. The decrease was attributed to reduced prices of commodities in March. The Tanzanian shilling has so far managed to remain relatively stable and has depreciated by only 0.65%. The local unit opened the year at 2298 to the dollar, traded to an initial high of 2310, retraced down to 2303 before extending further up to 2313 where it closed.

Lastly, as the economic meltdown brought on by the coronavirus pandemic has Governments deploying historically vast fiscal spending packages to support millions of citizens and businesses, monetary stimulus can play an important role in containing the economic fallout from the COVID-19 shock by reducing borrowing costs and providing vital liquidity to households and firms. Additionally, financial support from development partners to African economies is deemed as crucial as the fight against the pandemic intensifies across the world.

Sub-Saharan & Global GDP growth trend (annual%)



Source: World Bank national accounts data

References: Africa's Pulse, World Bank 2020

International Monetary Fund, World economic outlook report

International Energy Agency, Oil market report (April 2020)

Bank of Tanzania monthly economic review March 2020

National Bureau of Statics, Tanzania

Market **Analysis**



Money Markets

Overnight Interbank Cash Market: Improved activities, stable rates

First quarter of 2020 marked a continuation of a liquid market with activities increasing by 43% as interbank players positioned themselves to kick off the year. Trading in the overnight market was up to TZS 1,265 billion from TZS 887 billion recorded in the last quarter of 2019.

Consistent with Liquidity progress, the overall interbank Money market rates remained below 5% to average at 4.11% slightly above 4.06% recorded in the previous quarter.

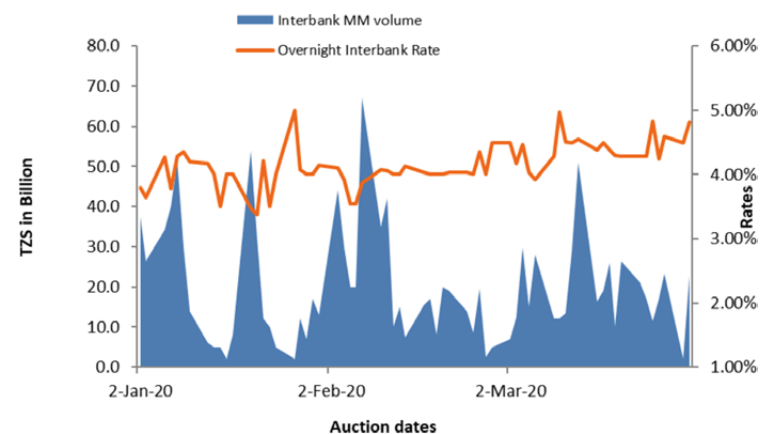
With end of Government's fiscal year in the coming quarter, activities in the overnight market are expected to improve further with rates slightly going up as players look to cover their end of fiscal year shilling obligations.

Overnight interbank
cash market activities
up by
43% Q-o-Q.

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Interbank Money Market Activities



Source: Bank of Tanzania

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Treasury Bills Trend: Oversubscribed auctions, falling rates.

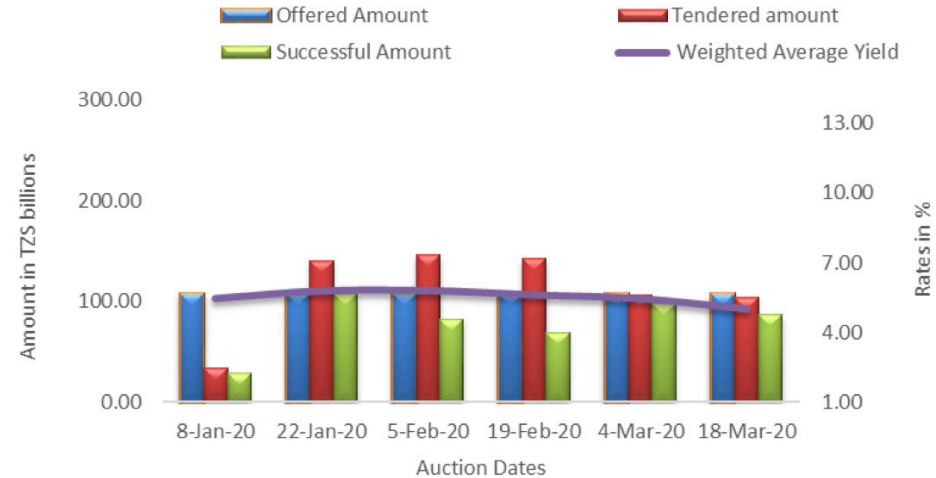
During the first quarter of 2020, six auctions were conducted by Bank of Tanzania where total of TZS 643 billion was auctioned. This is lower than TZS 750 billion that was auctioned in the previous quarter. In total the auctions were slightly oversubscribed by 5% from a significant oversubscription of 56% during the last quarter of 2019. Rates fell to an average of 5.03% from a close of 5.68% in the previous quarter. Bids worth TZS 675 billion were received, explaining sound liquidity levels experienced but decreasing appetite for treasury bills as rates hit bottoms.

Out of TZS 675 billion received bids, only TZS 473 billion was successful. This is 30% below what was auctioned, and it leaves TZS 201 billion demand from the Government uncovered, adding up to the TZS 139 billion gap from the previous quarter.

With expected COVID-19 impacts on economic activities and business in general, Government revenues could decline, putting pressure on Government auctions. With this, returns could improve in the coming quarter.

Way moves down by
65 bps
Q-o-Q

Treasury Bills Primary Market



Source: Bank of Tanzania



Foreign exchange market: Contained Shilling Depreciation Amid A Global Pandemic

If it's one thing that has dominated the 1st quarter of 2020 and grab global headlines, it's been the Corona virus. Following its initial outbreak in Wuhan, China in December 2019, the virus (at the point of writing) has now infected more than 2.6 million people across the world, with more than 184,200 deaths and 722,000 having recovered making it the biggest global public health crisis of our time. Domestically, confirmed cases have reached 284, with only 10 fatality and 11 recoveries which is relatively moderate considering the experience of other countries.

As it can be expected, covid-19 has also had a significant global economic impact. Foreign exchange markets in particular, have experienced a lot of volatility as investors and other global economic players move resources to better position themselves against the effects of the pandemic. Emerging market economies being more risky experienced significant depreciation of their currencies as

investors switched to a risk off sentiment & directed their investments to safe havens particularly USD. Example the South African Rand has lost nearly 40% of its value since the start of the year. In the midst of this, the Tanzanian shilling has so far managed to remain relatively stable and has depreciated by only 0.65%. The local unit opened the year at 2298 to the dollar, traded to an initial high of 2310, retraced down to 2303 before extending further up to 2313 where it closed. Main factor owing to the local unit's resilience compared to that of peers is a due to our capital account being partially closed hence has limited our exposure and connection to more advanced economies. There is a popular saying that goes "when China/Europe Sneezes, Australia and Emerging markets catch a cold", fortunately this doesn't directly apply to us and hence the local unit has been able to protect its value relatively well.

The volumes traded in the Interbank Foreign Exchange

Market (IFEM) decreased by 55.6% from the previous quarter's USD 430.88 Million to USD 191.48 Million. The Bank of Tanzania continued its role of maintaining orderly money market conditions via close market supervision and monitoring.

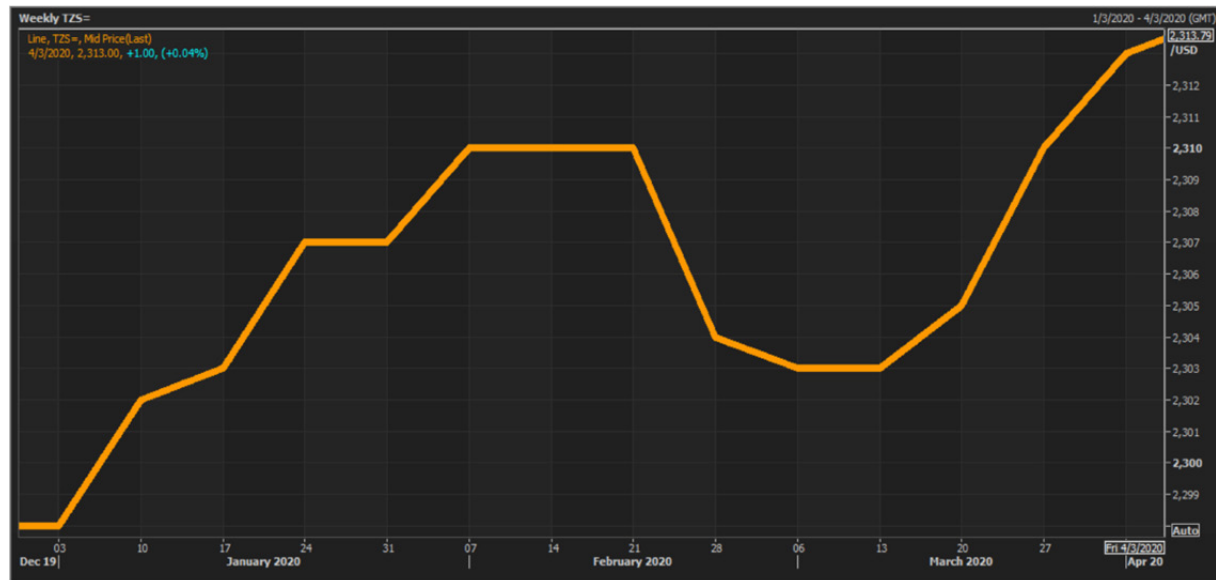
Heading to the second quarter, its been customary to expect the requirements for the hard currency to outweigh the inflows and the local pair to depreciate slightly with limited volatility as corporates gear up to meet their 2019 dividend obligations. However this year has been anything but customary, with most countries having closed their borders; we expect the traditional inflows mostly from tourism and agriculture which usually come in from June to be heavily impacted.

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Contained Shilling Depreciation amid a Global Pandemic



Source: Reuters

	Open	Low	High	Close
Q4 2019	2298.00	2298.00	2305.00	2298.00
Q1 2020	2298.00	2298.00	2313.00	2313.00

Government Bonds Market:

Auctions Significantly Oversubscribed

In line with our expectations, market liquidity remained stable and investor's participation in auctions remained high in the first quarter of 2020. In the reviewed quarter TZS 731.28 billion was auctioned in 2yr, 10yr, 15yr and 20yr and received bids worthy TZS 1,772.59 billion marking a 142% oversubscription. Successful bids were TZS 757.83 billion.

A significant oversubscription in the auctions meant falling rates across all papers Q-o-Q. 2-year, 10-year, 15 year and 20 year fell to 8.34%, 12.90%, 14.54% and 16.22% in the reviewed quarter from 11.08%, 14.53%, 15.24%, and 16.76% respectively.

In the coming quarter all bonds will be auctioned with an exception of a 10-year paper. With expected slow down in economic activities brought by Covid-19, this together with end of government's fiscal year investors participation in auctions could decline.

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Treasury Bonds Primary Market

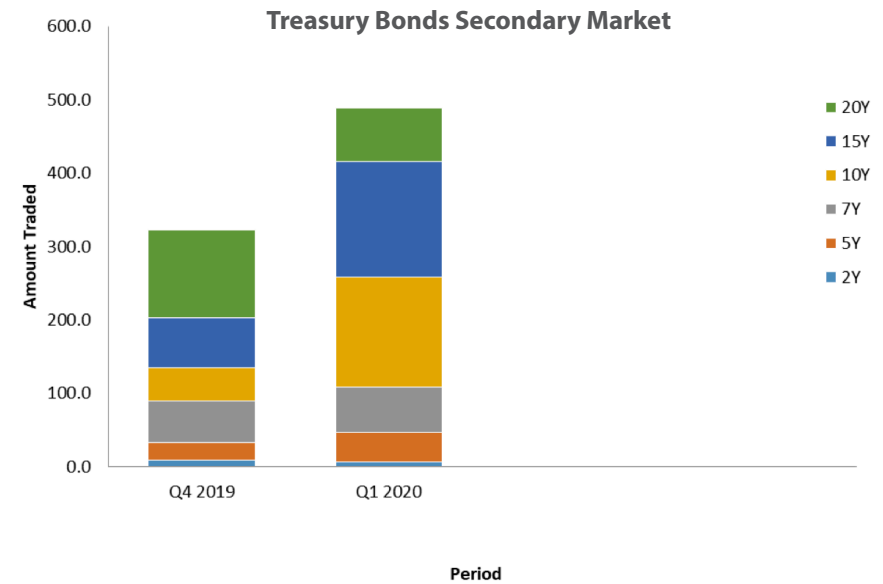


Source: Bank of Tanzania

In line with our expectations, market activities remained stable in the reviewed quarter in comparison to the last quarter of 2019. Market traded bonds worth of TZS 489 billion up from TZS 323 billion in the previous quarter to mark a 51% growth Q-o-Q. An improvement in activities can be partly explained by favorable market liquidity situation and an appetite for investment by investors to lock in returns as the year kicked off. Also with uncertainties arising from COVID-19 effects, some investors shifted from stock market to Government securities market. With expected market situations, secondary market activities should remain stable in the coming quarter.

Secondary Market
activities up by

51% Q-o-Q





Equity Market:

Market turnover increase
by 189 percent

The total turnover increased by 189 percent Q-o-Q to TZS 98.5 Billion during the quarter under review from TZS 34 Billion recorded in the previous quarter. The increase was contributed by the significant transaction of TBL and CRDB that happened during the quarter. Likewise, turnover increased by 164 percent Y-o-Y to TZS 98.5 Billion from TZS 37.3 Billion in the same period of 2019.

Foreign investors continued to dominate the market activities both on buy side and sale side. Foreign investors' turnover on buy side was TZS 92.4 Billion, which represents 93.87 percent while on sale side was TZS 87.4 billion which represents 88.75 percent. This means foreign investors have continued to buy and sell between themselves.

In the reviewed quarter, total market capitalization decreased by 15 percent Q-o-Q to TZS 14 trillion from TZS 17 trillion also decrease by 27 percent Y-o-Y to TZS 14 trillion from TZS 19.8 trillion in the same period of 2019. The decrease during the quarter was due to decline of prices for cross-listed companies. These are

companies primarily listed in the Nairobi Securities Exchange, which are also cross-listed at the DSE. The decline was mainly due to low trading activities due to covid-19 pandemic that hit Africa since beginning of January 2019.

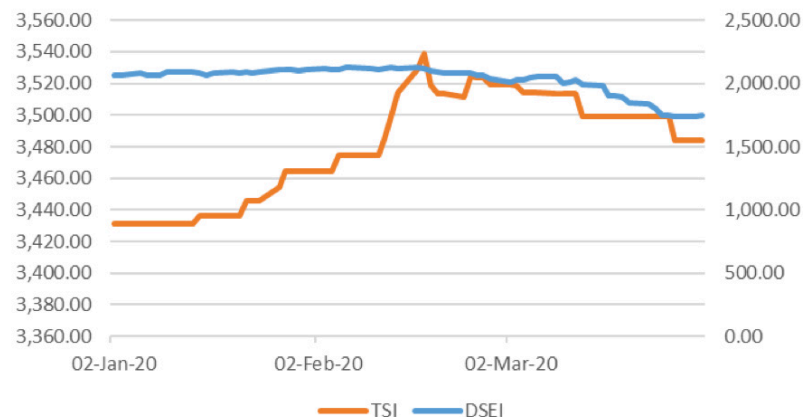
All Share Index (DSEI) which measures performance of all listed companies on the Dar es salaam stock exchange decreased by 15 percent in the reviewed quarter to 1,747.70 points from 2,059.21 points in the previous quarter. Likewise, the Tanzania Share Index (TSI), which measures performance of locally listed companies increased by 0.04 percent in the reviewed quarter to 3,482.87 points from 3,431.10 points. Tanzania Share Index (TSI) gained 53 points while All Share Index (DSEI) lost 312 points due to decline of prices for cross-listed companies.

Due to covid-19, most annual general meetings were postponed including ones that had been announced, as a result, dividends declarations were delayed. We expect listed companies to start declaration of dividends in the coming quarter.

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Market Indices



Economic Data Issuance Calendar

The following economic data and Government securities will be issued in the coming quarter. However, the Bank of Tanzania reserves a mandate to change the Government securities calendar accordingly.

Date	Event
01-Apr-20	Treasury Bills Auction
08-Apr-20	15-year Treasury Bond Auction
10-Apr-20	March inflation data release
15-Apr-20	Treasury Bills Auction
22-Apr-20	20-year Treasury Bond Auction
29-Apr-20	Treasury Bills Auction
06-May-20	7-year Treasury Bond Auction
08-May-20	April inflation data release
13-May-20	Treasury Bills Auction
20-May-20	20-year Treasury Bond Auction
27-May-20	Treasury Bills Auction
03-Jun-20	15-year Treasury Bond Auction
09-Jun-20	May inflation data release
10-Jun-20	Treasury Bills Auction
17-Jun-20	5-year Treasury Bond Auction
24-Jun-20	Treasury Bills Auction

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