

MALAWI

Political and economic news

AfDB cautions on monetary policy

Raising interest rates in African countries such as Malawi may have limited success in containing or reducing inflation because most countries on the continent face supply-side shocks, a report from the African Development Bank (AfDB) shows. In the January 2024 issue of Africa's Macroeconomic Performance and Outlook released last week, the continental bank noted that inflation remained elevated in some African countries despite central banks imposing high interest rates. Since April 2022, the Reserve Bank of Malawi (RBM) has raised the policy rate by 1 200 basis points from 12% to 24%, representing an upward adjustment of 100%. However, over the same period, inflation has risen by 123% from 15.7% to 35%. AfDB said it is important to note although the policy rate has more than doubled in the past two years, real interest rates remain negative, meaning they are higher than the inflation rate. The bank cautions this would further counteract the effects of monetary policy instruments. Reads the report: "Low and negative real interest rates disincentivise domestic savings, and with national currencies weakening, households could use alternative assets, including foreign currency, as store of value, further undermining the efficacy of monetary policy transmission to combat inflation." AfDB, thus, urged member countries like Malawi to explore more innovative instruments to deal with the supply side factors driving the current wave of inflation amid concerns that "further upward adjustment in interest rates could increase the cost of credit disproportionately and impose a tax on growth". (Source: *The Nation*)

Q3 of 2023/24 closes with K25.1bn surplus

Expectations The Malawi Government closed the third quarter (Q3) of the 2023/24 financial year with a surplus of K25.1 billion, figures from the Reserve Bank of Malawi (RBM) show. The central bank said in its January 2024 issue of the Monetary Policy Report that the government revenues in Q3 stood at K1.05tn while expenditures stood at K1.02tn, resulting in a rare fiscal surplus. The report reads: "During the previous quarter, government expenditures amounted to K790.3bn while expenditures incurred during FY2022/23Q3 stood at K769.2bn. Meanwhile, total revenues collected during FY2023/24 Q2 totaled K688.2bn, while K539.1bn was collected during FY2022/23Q3." Based on Business Review calculations using RBM data contained in the December 2023 issue of the Financial and Economic Review, the surplus was an improvement over the K295.8bn recorded in Q2 and K263.8bn recorded in Q1. Economics Association of Malawi acting president commended the government for the improvement in the past two months but cautioned that the positive trend might not be sustainable in the long term. But she expressed concern that the improved performance might have been because of budget underperformance, a development that would "mean that the government was building up expenditure arrears which will be paid up in the first quarter of 2024". (Source: *The Nation*)

*Markets underestimate risk of
inflation re-accelerating*

Equity and fixed income markets may be too optimistic on how quickly central banks will cut interest rates and underestimate the risk of an economic downturn or of inflation reaccelerating, U.S. bond giant PIMCO. The asset manager over the past year has shifted out of lower-rated credit into higher-quality, securitized assets that could gain value and prove more resilient in a range of economic scenarios, PIMCO's group chief investment officer, said in a note. PIMCO expects inflation to continue to decline and that central banks, including the Federal Reserve, will cut rates this year, but said markets were too optimistic on how quickly the process will unfold. "We think the market is rightly suggesting that a soft landing in the U.S. is possible," he said, referring to an economic scenario where the Fed manages to bring inflation down without causing a recession. "However, credit spreads and equity valuations factor in a very low probability to the risk of either a recession or of inflation reigniting." PIMCO maintains exposure to U.S. Treasury Inflation-Protected Securities to protect against the possibility of a rebound in inflation. Bonds rallied late last year on expectations the Fed had reached a peak in its interest-rate hiking cycle. PIMCO's flagship Income Fund, managed by Ivascyn, posted a 9.32% return in 2023. "When the Fed begins to cut rates, we believe price appreciation could lift returns above even the high levels achieved last year," he said. He added he has reduced the fund's interest rate exposure from its peak last year to maturities ranging between five and 10 years. While it maintains exposure to shorter-dated securities, they appear to be overvalued because of excessive market optimism on how quickly the U.S. central bank will lower rates. "In our view, when the Fed ultimately cuts interest rates ... yields in longer-maturity bonds could rise further, pressuring prices," he said. *(Source: The Business Times)*

Market activity and colour

Market commentary

The market traded 3.7m shares in 259 trades recording a market turnover of MWK 2.1bn during the week ended. BHL (+0.1%), FDHB (+0.2%), FMBCH (+0.2%) and ILLOVO were the market gainers whilst MPICO (-0.1%), NBS (-2.7%) and NICO dropped in prices. The significant price drops on the counters registered pushed MASI down by 0.1%.

However, on year-to-date the index went up by 84.4%. The market capitalisation in MWK rose by 84.8% y-t-d to K6.1trn and remained the same in USD terms to 3.6bn.

Weekly Market Report



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SYMBOL SUMMARY



Trading Summary for the week ending 23 February 2024

Symbol	Open	Close		Volume	Value	Trades Count	Market Capitalization
AIRTEL	55.10	55.10	0.0%	837,959	46,172,590.00	36	606,100,000,000
BHL	13.02	13.03	0.1% ↓	31,200	406,536.00	1	10,941,951,686
FDHB	65.00	65.14	0.2% ↓	846,720	55,147,706.00	53	449,533,175,625
FMBCH	413.00	413.72	0.2% ↓	27,547	11,399,863.60	15	1,017,027,190,000
ICON	16.89	16.89	0.0% ↓	1,152	19,457.28	1	112,825,200,000
ILLOVO	1,350.06	1,350.10	0.0% ↑	14,789	19,966,267.00	30	963,221,272,289
MPICO	14.74	14.72	-0.1% ↓	414,190	6,097,261.04	6	33,827,258,611
NBM	2,101.80	2,101.80	0.0% ↑	946,536	1,989,429,916.80	51	981,397,126,928
NBS	110.00	107.00	-2.7% ↓	128,131	13,832,815.72	26	311,431,349,092
NICO	200.00	199.95	0.0% ↓	164,902	32,980,222.50	17	208,556,067,145
NITL	411.45	411.45	0.0%	4,582	1,885,283.90	3	55,545,750,000
OMU	1,500.02	1,500.02	0.0%	262	393,005.24	1	19,469,151,085
PCL	2,507.00	2,507.00	0.0%	0	0.00	0	301,481,340,740
STANDARD	3,950.16	3,950.16	0.0%	0	0.00	0	926,976,786,806
SUNBIRD	195.02	195.02	0.0%	4,080	795,681.60	2	51,013,834,752
TNM	14.00	14.00	0.0%	369,594	5,174,316.00	17	140,566,300,000
Totals				3,791,644	2,183,700,922.68	259	6,189,913,754,760

					23-Feb-24	16-Feb-24	31-Dec-23
INDEX (week)	114,489.44	114,374.77	-0.1% ↓	MWK/USD	1683.37	1683.37	1683.37
INDEX (month)	115,670.54	114,374.77	-1.1% ↓	MWK/GBP	2194.90	2182.25	2212.41
INDEX (year to date)	62,036.05	114,374.77	84.4% ↑	MWK/ZAR	90.51	91.64	93.54

Market cap (MWK'm)	6,189,913.75	3,348,012.68
Market cap (USD'm)	3677.104475	1988.879473

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