FINANCIAL MARKETS DEPARTMENT

WEEKLY FINANCIAL MARKET DEVELOPMENTS
(27 SEPTEMBER – 01 OCTOBER 2021)

Main Highlights

- ***International oil prices climbed to a multi-year high, as gold prices fell on the back of a strengthening US dollar.*** Oil prices have increased recently, amid a global supply crunch, after a period of Covid-induced demand uncertainty.

- ***Official foreign exchange reserves, held by the Reserve bank of Malawi, declined to close the review week at US$471.1 million (1.88 months of imports)*** from US$537.7 million (2.15 months of imports) recorded on 24th September 2021.

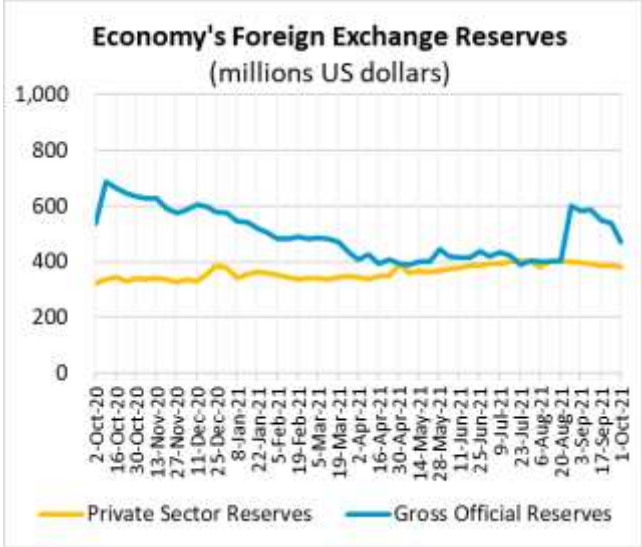
- ***The Malawi Kwacha appreciated against the US dollar, British Pound and South African Rand but depreciated against the Euro.*** The Kwacha performed similarly in September 2021 and during the third quarter 2021 where it only depreciated against the US dollar and appreciated against the other currencies. The Kwacha, nonetheless, remains a net looser in value against all above-mentioned currencies when compared to end last year positions.

- ***The Kwacha liquidity conditions remain very tight in the banking system*** with the daily commercial banks' excess reserves, *before borrowing from the central bank*, averaging negative K73.2 billion during the review week.

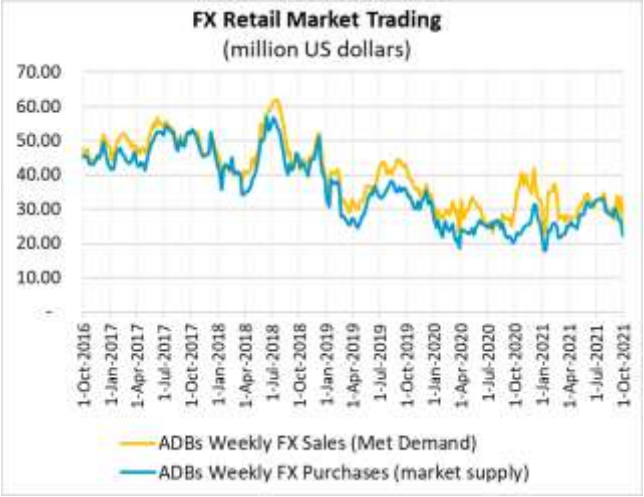
- ***Government securities continues to be undersubscribed***. Cumulatively in 2021/22 fiscal year, Government has only managed to source slightly above 40% of targeted amount from the domestic debt market, reflecting the impact of persistent tight liquidity conditions.

International oil prices climbed to their highest level since 2014, supported by the refusal of OPEC+ to boost output**.** Oil prices hit US$79 per barrel on 6th October 2021. Meanwhile, gold prices fell 0.5% to US$1,750.51 per ounce, while US gold futures were 0.7% lower at US$1,749.40. The dollar advanced to a ten-month peak, lifted by a Treasury yield surge, denting gold's appeal for those holding other currencies.

On the domestic front, the official FX reserves held by the Reserve Bank of Malawi (RBM) lost US$66.6 million to close the review week at US$471.1 million (1.88 months of imports). The loss in reserves represents reduced liabilities on the part of the central bank.



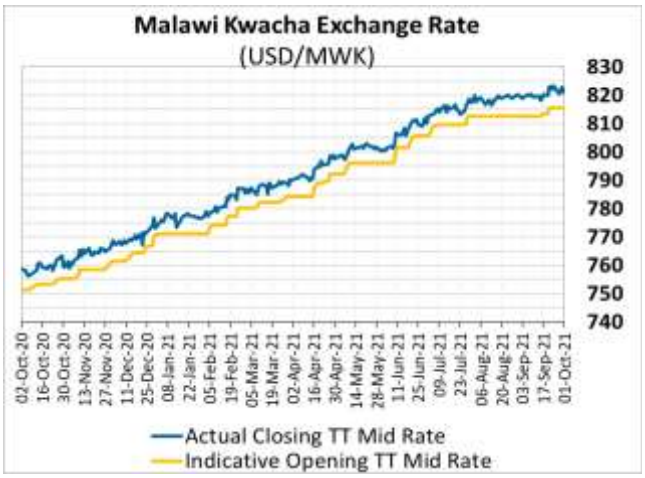
Supply in the FX retail market has now declined for five weeks in a row, portraying the general seasonal pattern observed during the past years. During the review period, Authorised Dealer Banks purchases from the market stood at US$22.5 million compared to US$26.4 million and US$27.2 million recorded in week ended 24th September and 17th September 2021, respectively. This suggests elevated supply and demand imbalances, which is a typical outcome in the lean period, and is expected to continue negatively affecting the stability of the Kwacha.



During the review period, despite the mounting depreciation pressure, the Malawi Kwacha appreciated against most of currencies of major trading partners. The Kwacha gained 0.28% (K2.33) against the US dollar to settle at K821.06 per US dollar. The Kwacha similarly gained 1.94% (K22.73) against the British Pound and 2.05% (K1.20) against the South African Rand. The local unit, nonetheless, lost 2.81% (K29.88) against the Euro.

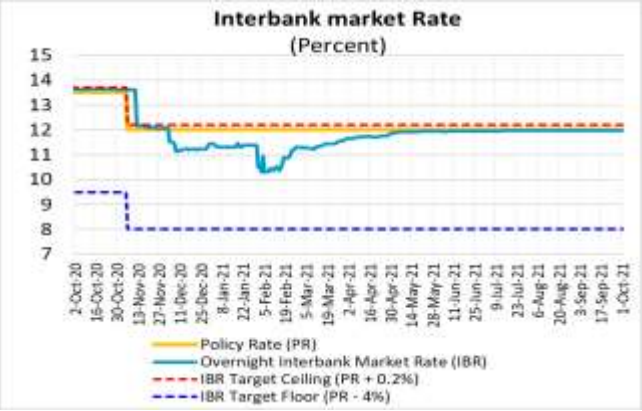
The Kwacha performance during the review week in a way mimics September 2021 and third quarter 2021 local currency performances, where it gained against the Pound, the Euro, and the Rand and lost value against the US dollar. Suffice to note that the depreciation against the US dollar in September 2021 at 0.24% (K1.95) was the lowest since July 2020 and in third quarter of 2021 at 1.24% (K10.22) was the lowest since second quarter of 2020.

Cumulatively, this year through 1st October, the Malawi Kwacha has depreciated against all currencies of major trading partners, in process losing 6.2% (K30.77) in value against the US dollar, 7.0% (K30.66) against the Pound, 7.2% (K71.40) against the Euro and 4.1% (K2.75) against the Rand.



Liquidity conditions in the domestic money market remain constrained, with the daily commercial banks' excess reserves, *before borrowing from the central bank*, averaging negative K73.2 billion during the review period from negative K87.1 billion recorded during the week ended 24th September 2021. The liquidity shortage was reflected on the Lombard borrowing window, where banks on an average borrowed K84.7 billion during the week under review, albeit a decline from K100.9 billion recorded during the preceding. Trading on the interbank market declined to average K16.8 billion per day from K18.5 billion per day recorded during the week ended 24th September 2021.

Reflecting the tight liquidity conditions, the IBR has remained steady and closely aligned to the policy rate at 11.98 percent since the third week of August 2021 [except on two occasions when it lost a basis point]. Hence, the IBR remains within the target corridor of +0.2/-4.0 percentage points around the policy rate as desirable under the inflation targeting framework the central bank is transitioning to.



During the review week, total central bank operations with the commercial banks were contractionary, withdrawing a net of about K13.8 billion from the banking system. Liquidity withdrawals were on account of Government primary surplus amounting to K7.2 billion, net commercial banks currency withdrawals from the central bank to meet customer demands as expected towards the end of the month totaling K17.8 billion and net central bank foreign exchange operations summing up to K1.1 billion. These withdrawals were partially offset by injections from net maturity of Treasury securities and net open market operations through net access on Lombard facility amounting to K3.6 billion and K8.7 billion, respectively.

Government continues to under-allot relative to planned issuance on Treasury securities auctions in 2021/22 fiscal year amid persistently tight liquidity conditions that often introduce pricing concerns. Government raised a total of K12.6 billion on Treasury securities primary market through Treasury bills (K8.8 billion) and 10-year Treasury note (K3.7 billion). The Treasury bills allotment was against planned issuance of K16.1 billion and subscription of K12.5 billion while Treasury note allotment was against planned issuance of K16.3 billion and subscription of K5.8 billion. This represents allotment to planned issuance ratio of 54.72% for Treasury bills and 22.90% for Treasury note as well as allotment to subscription ratio of 70.20% for Treasury bills and 64.79% for Treasury note. Cumulatively in 2021/22 fiscal year, Treasury securities allotment stands at 84.77% of subscription and 41.39% of planned issuance.