FINANCIAL MARKETS DEPARTMENT

WEEKLY FINANCIAL MARKET DEVELOPMENTS
(04 – 08 OCTOBER 2021)

Main Highlights

- ***Gross official foreign exchange reserves, held by the Reserve Bank of Malawi, declined by US$3.0 million*** to close the review week at US$468.1 million, which was sufficient to cover 1.87 months of imports.

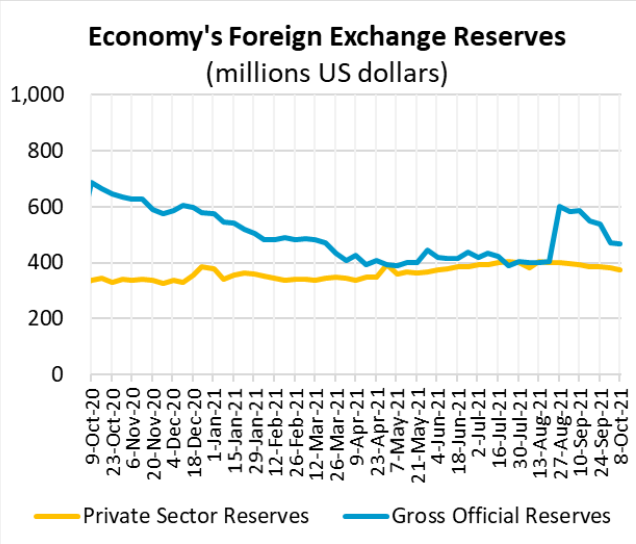
- ***During the review week, the Malawi Kwacha exchange rate movements against the US dollar, British Pound, South African Rand, and the Euro partially negated preceding week's corresponding movements.*** The Kwacha closed at K822.7969 per US dollar on 8th October 2021.

- ***The Kwacha liquidity conditions in the banking system improved somewhat, but remained tight,*** with the daily commercial banks' excess reserves, *before borrowing from the central bank,* averaging negative K58.5 billion during the review week.
- ***Government securities were oversubscribed but remain under-allotted at each auction relative to the planned issuance in 2021/22 fiscal year due to price concerns***. Cumulatively in 2021/22 fiscal year, Government has managed to source 42.3% of targeted amount from the domestic debt market, reflecting the impact of persistently tight liquidity conditions and price concerns.

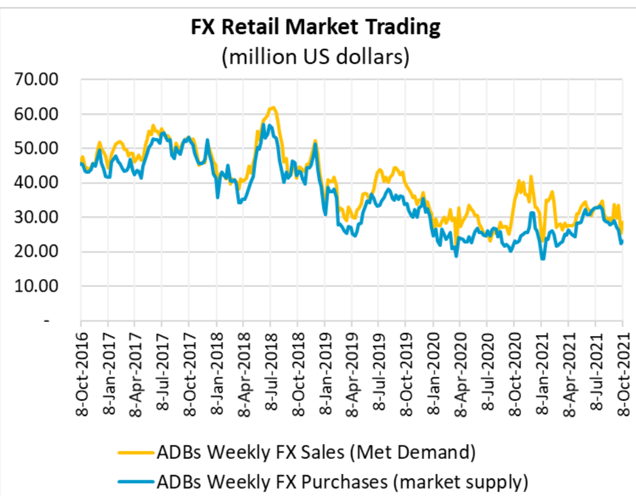
- ***International oil prices settled comfortably above the US$80 mark, reflecting growing demand.*** Oil prices have been rising in the past few weeks, as demand continued to outstrip supply. Meanwhile, gold prices continued to rise, trading at US$1,759 per ounce.

- ***The International Monetary Fund (IMF) has trimmed its global economic forecast, reflecting the impact of Covid-19 pandemic.*** Global economy is expected to grow by 5.9% this year, from 6% projected in July, before slowing down to 4.9% in 2022.

Gross official FX reserves, held by the Reserve Bank of Malawi, dropped by US$3.0 million to close the review period at US$468.1 million, sufficient to cover 1.87 months of imports. This is compared to US$66.6 million decline recorded during the preceding week.

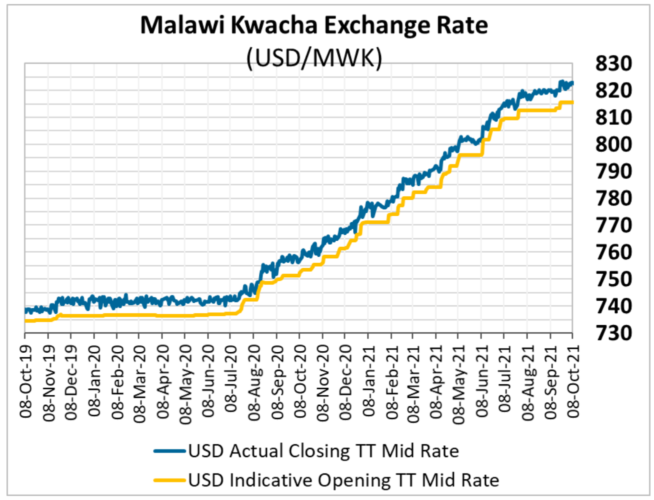


Supply in the FX retail market slightly increased albeit remained low relative to demand. Authorised Dealer Banks (ADBs) purchased a total of US$23.1 million from the market compared to US$22.5 million that was sourced during the week ended 1st October 2021.



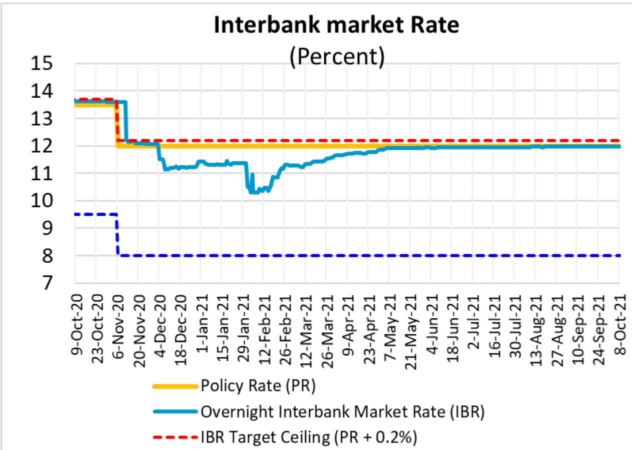
During the review period, the Kwacha movements against currencies of major trading partners partially negated the corresponding movements recorded during the preceding week. The Kwacha lost 0.21% (K1.73) against the US dollar to settle at K822.7969 per US dollar following the preceding week's gain of 0.28% (K2.33). Similarly, the Kwacha lost 0.78% (K9.10) against the British Pound following 1.94% (K22.73) gain, lost 0.58% (34 tambala) against the South African Rand following 2.05% (K1.20) gain, and gained 2.72% (K28.95) against the Euro following 2.81% (K29.88) loss.

Cumulatively, this year as at 8th October, the Malawi Kwacha has depreciated against all currencies of major trading partners. The local unit has lost 6.43% (K32.50) in value against the US dollar, 7.86% (K39.76) against the Pound, 4.30% (K42.45) against the Euro and 4.74% (K3.09) against the Rand.



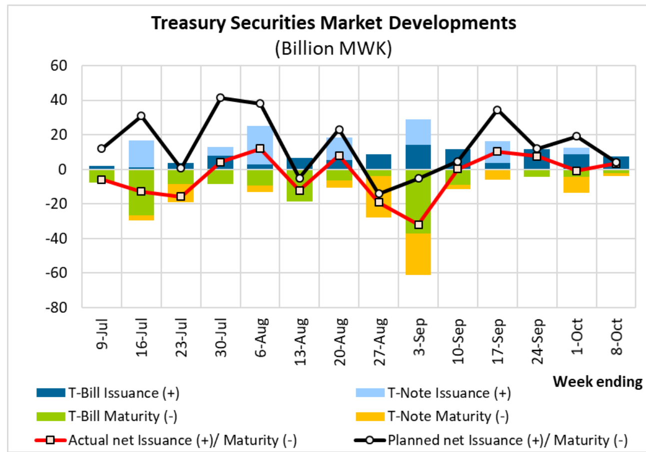
Liquidity conditions in the domestic money market further improved during the review week but remained tight. The daily commercial banks' excess reserves, *before borrowing from the central bank,* averaged negative K58.5 billion compared to negative K71.4 billion recorded during the week ended 1st October 2021. Commercial banks recourse to the central bank, as a last resort, barely changed as access on the Lombard facility averaged K82.1 billion per day compared to K82.9 billion per day that was recorded during the previous week. Trading on the interbank market increased to average K17.3 billion per day from K16.8 billion per day observed during the week ended 1st October 2021.

The IBR remained steady and closely aligned to the policy rate at 11.98 percent. Thus, the IBR continues to be within the target corridor of +0.2/-4.0 percentage points around the policy rate.



During the review week, total central bank operations with the commercial banks were expansionary, injecting a net of K19.2 billion into the banking system. Government operations were the main supplier of liquidity injecting K45.4 billion. Customer deposits at commercial banks injected a further K1.3 billion into the banking system. These injections were partially offset by withdrawals from net issuance of Treasury securities amounting to K4.0 billion, net central bank foreign exchange operations totaling K1.6 billion, and net open market operations (OMO) that summed up to K21.8 billion. Net OMO included net maturity on Lombard facility of K14.2 billion and maturity of reverse repos at K7.6 billion.

For the second time in fourteen auction weeks in 2021/22 fiscal year, Government received sufficient subscriptions on the Treasury securities primary market relative to planned issuance, but under-allotted due to price concerns. Government raised a total of K7.3 billion on Treasury bills primary market against subscription of K12.4 billion and planned issuance of K8.2 billion. This represents an allotment to subscription ratio of 59.0% and allotment to planned issuance ratio of 89.3%. The majority of allotment, at 98.7%, was on 364-day tenor. The foregoing has improved the cumulative Treasury securities allotment to planned issuance ratio in 2021/22 fiscal year to 42.3% from 41.4% but reduced cumulative allotment to subscription ratio to 83.3% from 84.8%.



Meanwhile, Government has just announced plans to raise K397.6 billion through Treasury securities from October to December 2021. The Issuance calendar has been published on the Reserve Bank of Malawi's website and contains a planned second issue of Infrastructure Development Bonds.

International oil prices settled above the US$80 per barrel mark, reflecting recovering demand. Oil prices have been rising in the past few weeks, as demand continued to outstrip supply owing to a quicker-than-expected economic recovery in developed countries. The rise increase in oil prices has raised fears that overall inflation could edge up and hinder global economic recovery.