FINANCIAL MARKETS DEPARTMENT

WEEKLY FINANCIAL MARKET DEVELOPMENTS
(06 SEPTEMBER – 10 SEPTEMBER 2021)

Main Highlights

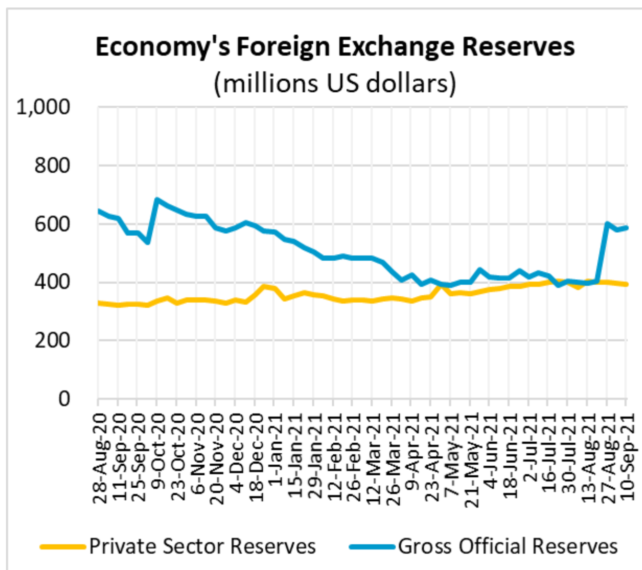
- ***Gross official foreign exchange reserves increased to US$587.6 million (2.35 months of imports) on 10th September 2021*** from US$580.9 million (2.32 months of imports) recorded on 3rd September 2021.

- ***The Malawi Kwacha continues to be broadly stable,*** losing 0.06% (53 tambala) in three weeks to close the review week at K819.3868 per US dollar.

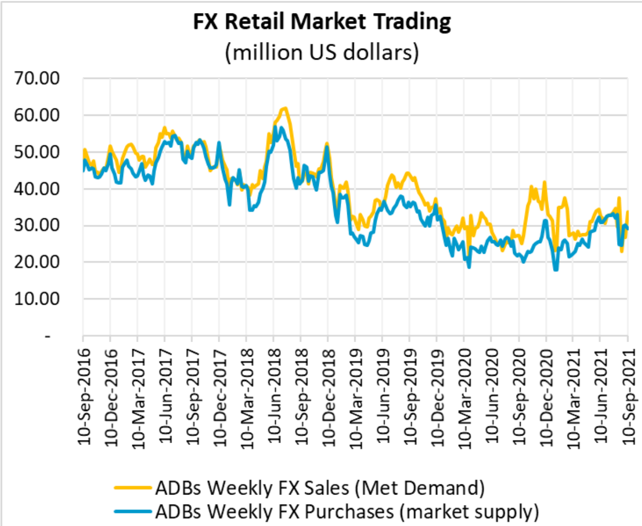
- ***Liquidity conditions in the banking system tightened further from the stance that existed towards the end of the preceding week***. The daily commercial banks' excess reserves *before borrowing from the central bank* averaged negative K81.9 billion compared to negative K54.2 billion recorded during the week ended 3rd September 2021.

- ***Government continues to under-allot on Treasury securities primary market during the 2021/22 fiscal year relative to the planned issuance*** amid tight liquidity conditions.

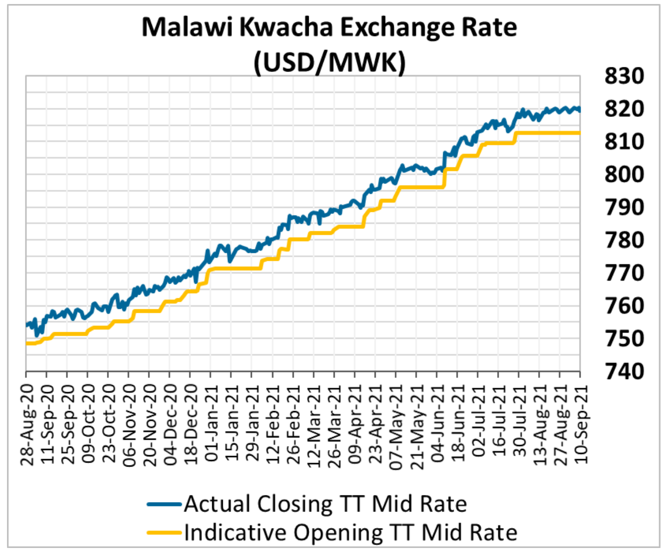
The gross official FX reserves increased by US$6.6 million to close at US$587.6 million (2.35 months of imports) on 10th September 2021 from US$580.9 million (2.32 months of imports) recorded on 3rd September 2021. The central bank remains committed to accumulate FX reserves to above the recommended 3 months of imports. Efforts at diversifying the economy away from primary produce have remained largely unsuccessful. Greater effort should be made to improve the state of infrastructure to support export-led growth on a sustainable basis.



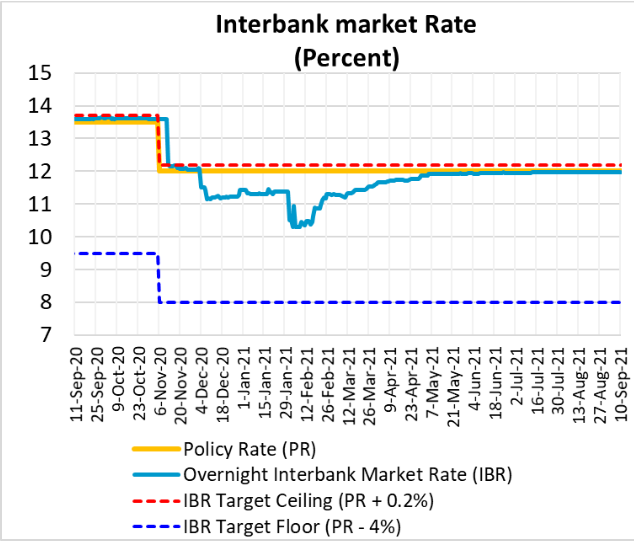
Supply in the FX retail market marginally declined to US$29.1 million from preceding week's sum of US$30.2 million. Compared to previous year and preceding weeks' developments, the market supply is higher this year than same period last year and has recovered from a decline that was observed after closure of tobacco marketing season, likely reflecting the impact of re-introduction of mandatory export proceeds conversion requirement.



The Malawi Kwacha continued to remain broadly stable and lost 0.05 percent (41 tambala) from a position of K818.9767 per US dollar recorded by end of week ended 3rd September 2021 to close at K819.3868 against the US dollar during the review week. During the same period, the local unit also lost 0.18% (K1.86 movement) against the Euro and 1.45% (K0.90 movement) against the South African Rand but gained 0.18% (K2.18 movement) against the British Pound. The kwacha has been under pressure because of widening current account amid higher imports. Since the start of this year, the kwacha has depreciated cumulatively by about 5.71% against the US dollar, 8.80% against the Pound, 5.42% against the Euro and 10.10% against the South African rand.



Liquidity conditions in the banking system tightened further from the stance observed towards the end of week ending 3rd September 2021, explained by net maturity of reverse repos, net issuance of government securities and net liquidity withdrawal from the central bank's commercial foreign exchange operations. The daily commercial banks' excess reserves *before borrowing from the central bank* averaged negative K80.28 billion from negative K54.20 billion recorded during the week ended 3rd September 2021 and negative K40.1 billion observed in week ended 27th August 2021. In tandem with the prevailing liquidity conditions, daily average access on the Lombard window increased to K97.4 billion from K81.7 billion recorded during the previous week. Trading on the interbank market reflected the asymmetry in tightness of liquidity conditions in the banking system and significantly increased to average K22.9 billion per day from K10.6 billion per day recorded during the preceding week.



The IBR remained steady and closely aligned to the policy rate at 11.98 percent since 20th August 2021 [except for 2nd September 2021 when IBR momentarily lost a basis point]. Thus, the IBR remained within the target corridor of +0.2/-4.0 percentage points around the policy rate, which is essential for the signaling role of the Policy rate and effectiveness of the interest rate monetary policy transmission channel.

During the review week, total central bank operations with the commercial banks were expansionary, injecting a net of about K20.0 billion into the banking system. Government injected K5.7 billion into the banking system by running a budget deficit while and the central bank injected K5.7 billion and K13.5 billion through foreign exchange operations and net commercial banks access on Lombard standing facility, respectively. The injections were more than enough to overshadow withdrawals from net issuance of Treasury securities amounting to K1.4 billion and currency withdrawal by commercial banks from the central bank totaling K1.1 billion aimed at satisfying customer demands. Since most of the liquidity injections emanated from access on Lombard facility, underlying liquidity squeeze on commercial banks basically remained high albeit temporary relief was obtained to comply with the Liquidity Reserve Requirement (LRR).

Government continues to under-allot relative to planned issuance on Treasury securities auctions in 2021/22 fiscal year, reflecting persistent tight liquidity conditions that is affecting subscriptions and pushing Treasury yields high. Government raised a total of K11.7 billion on Treasury bills market against planned issuance of K16.1 billion, and a total Treasury securities maturity of K11.5 billion. The Treasury bills allotment was 100.0% of subscription and 72.57% of planned issuance. Cumulatively in 2021/22 fiscal year, Treasury securities allotment stands at 84.0% of subscription and 40.3% of planned issuance as per the issuance calendar.