



ECONOMIC POLICY AND RESEARCH DEPARTMENT

MARKET INTELLIGENCE REPORT FOR FEBRUARY 2021

1. OVERVIEW

- Cross-country economic developments for February 2021 continued to be diverse. In the industrialised and emerging market economies, for example, inflation rates for the United States of America (USA) and India were higher in February 2021 than in preceding month, while the United Kingdom (UK) and China registered a decline during the same period. On the other hand, inflation rate for the Eurozone remained unchanged at the January 2021 position.
- Similarly, month-on-month exchange rate movements showed appreciations for currencies of the UK, China and India against the United States dollar (USD) whereas the Euro and the USA dollar depreciated. However, the year-on-year changes indicated that the Chinese Yuan and the Indian Rupee recorded appreciations against the USD in February 2021, in contrast to depreciations experienced by the British Pound Sterling, the Euro and the USA Dollar.
- Within the SSA region, mixed performance was also reported in both the inflation and exchange rates. Developments in fuel prices and maize prices, both of which contribute significantly in these countries' consumer price index, also varied across the SSA region.
- On the domestic front, the February 2021 inflation rate was higher than the preceding month's level, while the exchange rate continued to weaken against currencies of most of Malawi's major trading partners. The lagged effects of the domestic fuel pump price adjustments effected in December 2020 continued to impact on headline inflation through

non-food prices into February 2021. However, the opening of ADMARC maize markets during the same month, with a selling price lower than the prevailing average market price, helped to subdue inflationary pressures from the other sources.

- Meanwhile, indications are that Malawi, and most countries in the SSA region, could harvest an above average maize crop production during the 2020/21 agricultural season. Materialisation of this could help to moderate inflationary pressures in the period ahead.

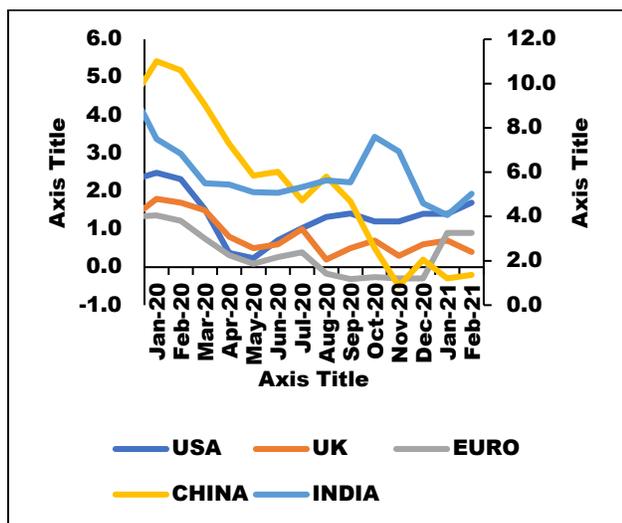
2. DEVELOPMENTS IN SELECTED INDUSTRIALISED AND EMERGING MARKET ECONOMIES

2.1 Inflation Developments

- The USA inflation rate rose to 1.7 percent in February 2021 from 1.4 percent in previous month. The February rate is the highest since February 2020. The outturn was attributed to an increase in prices for items under the energy and medical care components.
- In India, inflation rate also accelerated to 5.0 percent in February from 4.1 percent in January 2021. The upsurge reflected largely an increase in food prices which saw the food inflation rate rising to 3.9 percent in February 2021 from 1.9 percent in the preceding month.
- On the contrary, the UK economy recorded a lower inflation rate of 0.4 percent in February 2021 than 0.7 percent in January 2021. The decrease was primarily driven by a fall in prices of second-hand cars, clothing and footwear. The fall in prices of clothing and

footwear was the largest annual decline since November 2009. However, the Bank of England expects the inflation rate to rise towards the Bank's target of 2 percent in the first half of 2021, due to the anticipated increase in oil prices as lockdown restrictions which were implemented to contain the spread of the coronavirus infections get eased.

Chart 1: Inflation Rates in Selected Industrialised and Emerging Market Economies



- The Chinese economy recorded a deflation of 0.2 percent in February 2021 following another deflation of 0.3 percent in the previous month. This development was mainly supported by a fall in food prices as reflected in a sharp decline of pork inflation rate to negative 14.9 percent in February from negative 3.9 percent in January 2021.
- Meanwhile, the February 2021 inflation rate for the Eurozone remained unchanged at the preceding month's position of 0.9 percent.

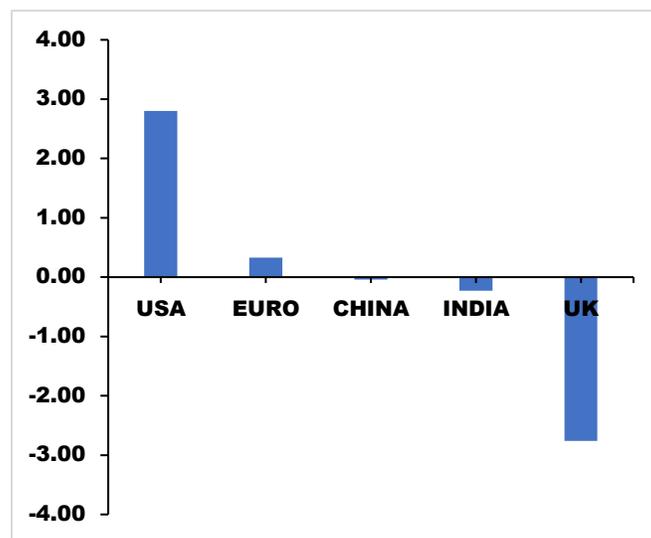
2.2 Exchange Rate Developments

- Mixed performance was also noted in both the month-on-month and annual movements in exchange rates for the industrialised and emerging market economies during the month under review (see Chart 2).¹

¹ Unlike all countries whose exchange rates have been expressed in terms of the US Dollar, the US exchange rate was expressed in terms of the British sterling, which was chosen considering that it is the strongest currency globally.

- The British Pound sterling, the Indian Rupee and the Chinese Yuan registered monthly appreciations against the US Dollar, while depreciations were experienced by the Euro and the US Dollar. Specifically, the British Pound Sterling, the Indian Rupee and the Chinese Yuan appreciated by 2.8 percent, 0.2 percent, and 0.04 percent in between January and February 2021, respectively, while the USA dollar and the Euro lost 2.8 percent and 0.3 percent during the same period, respectively.

Chart 2: Exchange Rates in Selected Advanced Economies



- Regarding the year-on-year movements, the Chinese Yuan and Indian Rupee also appreciated by 8.5 percent and 5.0 percent in February 2021, respectively, while the British Pound Sterling, the USA Dollar and the Euro experienced respective depreciations of 16.0 percent, 15.9 percent and 8.7 percent.

3. DEVELOPMENTS IN SELECTED SUB-SAHARAN AFRICAN ECONOMIES

3.1 Inflation Developments

- In the Sub-Saharan African (SSA) region, inflation developments for February 2021 varied across

countries. For example, Zambia, Mozambique, Botswana, Kenya, Angola, Uganda and Nigeria experienced higher inflation rates while South Africa, Rwanda and Tanzania reported lower rates than January 2021. Namibia, on the other hand, maintained the January 2021 inflation rate in the month under review.

- Mozambique's inflation rate increased for the sixth straight month to 5.1 percent in February 2021 from 4.1 percent in the preceding month. The February rate was the highest since December 2017. The outturn was attributed to a rise in food inflation rate to 11.5 percent from 9.1 percent in January 2021, reflecting persistent food shortages which have been exacerbated by the COVID-19 pandemic restrictions.
- Similarly, Zambia's inflation rate edged up for the sixth straight month to 22.2 percent in February from 21.5 percent in January 2021. At the February level, the Zambian inflation rate was the highest since March 2016. The upsurge was induced by an increase in food prices which raised the rate of food inflation to 27.3 percent in February 2021 from the preceding month's rate of 25.6 percent.
- In Kenya, inflation rate rose for the fifth straight month to 5.8 percent in February from 5.7 percent in January 2021, reaching its highest level since April 2020. The outturn was attributed to an increase in inflation rate for the transportation category to 16.7 percent in February 2021, from 14.2 percent in the previous month.
- The Botswana economy recorded a marginal increase in inflation rate to 2.4 percent in February 2021 from 2.3 percent reported in the preceding month, representing the highest level since May 2020. The acceleration was induced by increases in prices for items under the housing and utilities components.
- In Uganda, inflation rate also rose marginally to 3.8 percent in February from 3.7 percent in January 2021. The sources of the increase were mainly costs of transport, which raised inflation rate for this category to 28.9 percent in February 2021, from negative 28.1 percent in the previous month.
- Nigeria also reported a higher inflation rate of 17.3 percent in February than 16.5 percent recorded in

January 2021, reaching its highest level since February 2017. The upsurge reflected increases in prices for items under food and transportation components due to the COVID-19 pandemic disruptions to the economy.

- Inflation rate for the Angolan economy rose to 26.4 percent in February 2021 from the preceding month's position of 25.3 percent. The February 2021 rate was the highest since November 2017. This development was explained by rising prices for food, clothing and footwear.
- On the contrary, South Africa's inflation rate decreased to 2.9 percent in February 2021 from 3.2 percent in the preceding month. The outturn reflected an ease in the prices of food and non-alcoholic beverages, housing and utilities, and miscellaneous goods and services.
- Similarly, Tanzania's inflation rate eased, albeit marginally, to 3.3 percent in February 2021 from 3.5 percent in January 2021. The decrease was largely influenced by housing and utilities inflation rate which dropped to 4.4 percent in February 2021, from 7.3 percent in the previous month.
- In Rwanda, inflation rate continued to decline for the seventh straight month to 2.2 percent in February from 3.5 percent in January 2021, reaching the lowest level since July 2019. The outturn reflected a drop in the inflation rate for food and non-alcoholic beverages to 0.9 percent in February 2021 from 3.4 percent in the preceding month.
- Meanwhile, the February 2021 inflation rate for the Namibian economy remained unchanged at the previous month's position of 2.7 percent.

3.2 Exchange Rate Developments in the Region

- Regarding the exchange rate, currencies of some SSA member countries appreciated against the US Dollar in February 2021 while others experienced depreciations. The most hit currency was the Zambian Kwacha which depreciated by 2.1 percent due to widening of demand and supply imbalances. This was followed by the Rwandan Franc at 0.6 percent and the Tanzanian Shilling at 0.02 percent.

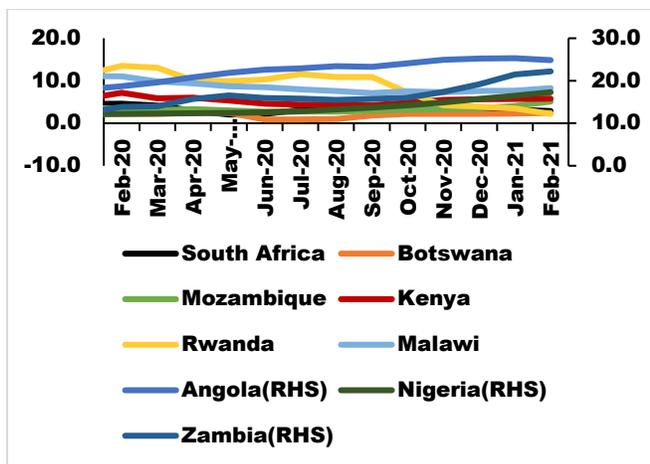
- However, as shown in chart 4 some countries saw their currencies appreciating against the US Dollar in February 2021, notably Angola (3.0 percent), South Africa (2.8 percent), Namibia (1.1 percent), Botswana (0.7 percent), Uganda (0.6 percent), Nigeria and Mozambique (0.2 percent each) and Kenya (0.1 percent).

4. DOMESTIC DEVELOPMENTS

4.1 Inflation Developments

- In the domestic economy, headline inflation rate increased to 8.3 percent in February 2021 from 7.7 percent in the previous month. The upsurge was attributed to a rise in both food and non-food inflation. Specifically, food inflation rate edged up to 10.3 percent in February from 9.7 percent in January 2021 due to an increase in prices of major pulses. Similarly, non-food inflation rate accelerated to 6.3 percent in February 2021 from 5.6 percent in the preceding month, reflecting pass-through effects of the December 2020 domestic fuel pump price increase and recent depreciations of the kwacha.
- Chart 3 compares Malawi’s headline inflation rate to some selected SSA countries. It is noted from this chart that Malawi continues to perform fairly well on lowering inflation than Angola, Nigeria (read from right scale) and Zambia, but the performance remains poor when compared to countries like Mozambique, Botswana, Kenya, Rwanda, Tanzania, Namibia, Uganda and South Africa.

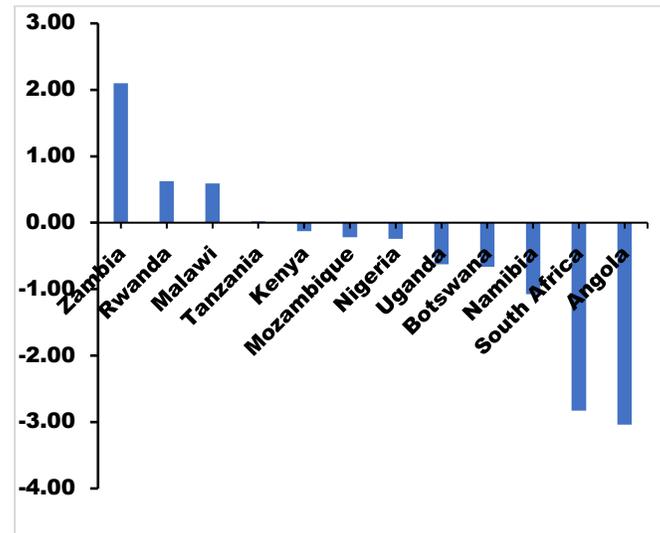
Chart 3: Inflation Rates in Selected SSA Countries



4.2 Exchange Rate Developments

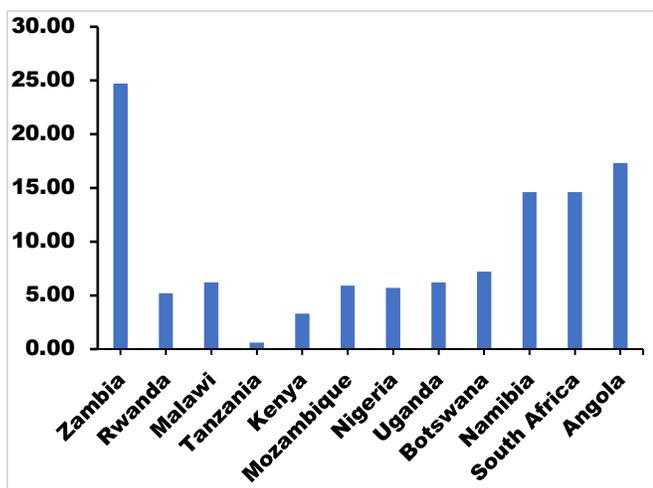
- The Malawi kwacha is also among the currencies in the SSA region which remains under pressure, as demand for foreign exchange continues to surpass its supply. As at end-February 2021, the kwacha lost 0.6 percent against the USD when compared to the end-January position.

Chart 4: Monthly changes in Local Currency per US Dollar as of end-February 2021



- Annually, the kwacha lost 6.2 percent against the USD between February 2020 and February 2021. However, as revealed by Chart 5, the pressures being experienced against the kwacha are fairly more subdued than those of currencies of most of the selected SSA countries. The year-on-year exchange rate developments in the month under review indicated that the South African rand and Namibian dollar appreciated by 14.6 percent each, while the Botswana pula and the Ugandan shilling appreciated by 7.2 percent and 6.2 percent, respectively. Meanwhile, the Zambian kwacha, the Angolan kwanza, the Mozambican metical, the Nigerian naira, the Rwandan franc, the Kenyan shilling and the Tanzanian shilling registered year-on-year depreciations of 24.7 percent, 17.3 percent, 5.9 percent, 5.7 percent, 5.2 percent, 3.3 percent and 0.6 percent in February 2021, respectively (see chart 5)

Chart 5: Annual changes in Local Currency per US Dollar as of end-February 2021



5. FUEL AND FOOD PRICE DEVELOPMENTS

- Considering the importance of fuel and food prices, especially maize, in the determination of inflation, particularly in Africa, the analysis is extended to assess developments in these indicators. The sections below focus on these indicators.

5.1. FUEL PRICE DEVELOPMENTS

5.1.1. Global Fuel Price Developments

- Global fuel price developments showed that Brent crude oil prices continued to rise and averaged US\$62.28/barrel in February 2021, up from US\$54.77/barrel in the previous month. The upsurge was attributed to optimism over the possible rollout of the coronavirus vaccines which would lead to increased economic activity.

5.1.2. Regional Fuel Price Developments

- In the SSA region, developments in fuel (pump petrol) prices, expressed in US\$ per litre, varied across countries. The highest price was registered in Zimbabwe at US\$1.3 per litre. This was followed by Uganda; Kenya, South Africa and Malawi at US\$1.1 per litre each; then Rwanda and Zambia at US\$1.0 per litre each; Mozambique, Tanzania, Namibia at US\$0.8 per litre; Botswana at US\$0.7 per litre; Nigeria at US\$0.4 per litre; and Angola at the lowest price of all at US\$0.3 per litre.

5.1.3. Domestic Fuel Price Developments

- The price of fuel (petrol) in Malawi was among the highest in the region at US\$1.1 per litre. The development was attributed to combined effects of the movement of the Free On Board (FOB) prices and depreciation of the Kwacha as well as changes in local factors that determine the maximum pump prices.

5.2. MAIZE PRICE DEVELOPMENTS

5.2.1. Regional Maize Prices

- According to recent reports from Food Price Monitoring and Analysis by FAO, prices of the main staple food in the SSA region, maize, have remained mostly stable in the first months of 2021, as ample supplies from the above average 2020 harvests weighed on prices and abated some of the upward pressures from weak currencies in several SSA countries. Production prospects for the 2021 cereal crops to be harvested from March/April, are mostly favourable, and a second consecutive above-average annual output is likely to help to contain seasonal price increases in the second half of 2021.
- In South Africa, wholesale prices of maize declined, month-on-month, in February 2021 although they were still up to 27 percent higher, on a yearly basis, than in 2020. The monthly decrease reflects the easing of international benchmark prices and a moderate strengthening of the national currency. The release of the first official production forecast for the 2021 maize crop provided further downward support to prices, as it affirmed earlier expectations that the country could harvest the second largest crop on record, bolstering the 2021 supply outlook. Prices of wheat also decreased in February, but at a lesser rate than in January 2021 and were near their values of a year earlier.
- In Zambia, prices of maize grain continued to increase seasonally in February 2021, but at moderate rates, and were lower than in February 2020. Production prospects for the 2021 cereal crops are also favourable and a second consecutive above-average harvest is expected to suppress inflationary pressure from the continued depreciation of the national currency.

- In Botswana and Namibia, prices of maize meal were also mostly stable in January 2021, but higher than the previous year, amid the increasing import costs from South Africa, which is the main source of grain supplies for both countries.

5.2.2. Domestic Maize Prices

- According to the recent International Food Policy Research Institute (IFPRI) Monthly Maize Market Report for Malawi, ADMARC sold Maize to consumers at MWK 160/kg during the first three weeks of February 2021. This was substantially lower than the retail price in most markets. Overall, the nominal average price for February 2021 is significantly lower than in February 2020. The nominal average price in 2021 was about MWK 40/kg lower than that of February 2019 during the first two weeks of the month, with prices almost equal at the end of the month in both years. Prices in 2020 and 2019 rose slightly throughout the month, whereas prices in 2021 declined at the start of the second week of February 2021.
- As at end-February 2021, retail maize prices in Malawian markets were lower than in most major regional markets in eastern and southern Africa. The highest retail price was recorded in Nairobi (Kenya), followed by Maputo (Mozambique) and Dar es Salaam (Tanzania). Prices in Lunzu, Mzuzu and Mitundu markets were higher than on SAFEX (the main grain futures market in South Africa). Prices in Karonga were higher than the national average price in Zambia reported at the end of January 2021.
- Furthermore, during the month under review, ADMARC announced that it had secured funds worth K183 billion (about US\$234 million) to purchase 1.1 million metric tonnes of maize from smallholder farmers during the 2020/21 harvest.

5.3. FOOD CROP ESTIMATES

5.3.1. Regional Crop Estimates

- A bumper harvest is expected in Southern Africa following the region's favourable rainfall during the 2020/21 agricultural season. Crops were in good

condition in most of the Southern African Development Community (SADC) countries due to steady rainfall, according to the new SADC Food Security Early Warning System Agromet Update published in February 2021. The report notes that crops were between vegetative and maturing stages in Botswana, Eswatini, Lesotho, Malawi, South Africa, Zambia and Zimbabwe, as well as the southern, central and western parts of Tanzania. If the region continues to receive sufficient rainfall until the end of the season, southern Africa is likely to achieve its food security status after years of consecutive droughts.

- However, despite the generally good picture in the region, some parts of southern Africa are still likely to have crops and forage negatively impacted by drought in the 2020/21 season. The areas include parts of Angola, Madagascar and Namibia.
- In Mozambique, the 2021 national cereal production is expected to remain near average. However, there are concerns of drought in the northern part of the country while the central and southern provinces were affected by Tropical Cyclone Guambe in the beginning of February 2021. Additionally, in January 2021, large areas of cropland were flooded by Tropical Cyclone Eloise. According to reports from the Food Agriculture Organisation (FAO), initial assessments indicate that the Eloise affected over 100,000 hectares of cropped land though the extent of damage to crops is yet to be known.
- Similarly, Zambia is anticipating a bumper harvest, as crop production is likely to exceed previous records of the past four years according to reports from the National Farmers Union of Zambia.
- Zimbabwe is yet to finalise the results of its first crop and livestock assessment. Nonetheless, preliminary findings indicate excellent conditions countrywide, apart from the southern parts of the country where the crops have been damaged by leaching. According to the Minister of Information, Publicity and Broadcasting Services in Zimbabwe, an estimated 2.5 million metric tonnes to 2.8 million metric tonnes of maize and 360,000 metric tonnes of traditional grain is anticipated during the 2020/21 season. This will be about five times the harvest of the 2019/20 season.

- South Africa continued exporting maize grain and products to grain deficit countries within the region despite the ongoing COVID-19 pandemic. After exporting to international markets earlier in the year, maize trade beyond the region slowed in December 2020 and January 2021. Exports to Zimbabwe expanded considerably in 2020 following changes to Zimbabwe's phytosanitary (GMO) requirements (World Grain). The outlook suggests that South Africa will continue to export average to above average volumes of maize to maize deficit countries.
- In Nigeria, insecurity around the country's most productive agricultural areas affected local production patterns. Market supplies were below average while demand was above average due to early depletion of household stocks. Driven by the poor macroeconomic conditions and below-average 2020/21 harvest, staple food prices are significantly above average and are expected to remain high through at least late 2021. The dry season harvest is expected to improve market supply slightly. However, a risk of famine could occur in a worst-case scenario if there is a dramatic uptick or shift in conflict that limits access to typical food and income sources and humanitarian assistance for a prolonged period.
- In Uganda, food staple prices were stable or increased unseasonably across many markets because of election-related uncertainty that led to reduced supplies on domestic markets. However, an above-average rainfall forecast from March to May 2021, and continued economic recovery in 2021 suggest agricultural production, labor demand, and regional export demand are likely to continue improving, while low staple food prices are likely to continue offsetting the effects of lagging income levels on food access.
- In Rwanda, the overall favourable 2020/2021 Season A harvest enhanced food availability and contributed to low food prices. Increased market supply of produce, particularly potatoes, beans, and maize, led to a decline in rural market food prices and improved household purchasing power. However, the COVID-19 pandemic restrictions continue to limit food and income-earning opportunities, particularly among the urban poor households engaged in casual labor, petty trade, and small business.
- Tanzania's maize supplies were at average to above-average levels, while maize grain prices decreased seasonally in bimodal production areas at already below average levels.
- Reports from Lesotho reveal that the country is likely to have a better harvest than the previous three years despite localized flooding caused by heavy rainfall that occurred in late January and early February 2021.
- In Kenya, estimates suggest that below-average household food stocks and income-earning opportunities are expected to limit food and income access across marginal agricultural and pastoral areas. Nevertheless, the February-August 2021 long rains season for western Kenya is likely to be above average and will improve national market supply.

5.3.2. *Domestic Crop Estimates*

- Latest reports from the Famine Early Warning System Network indicate that Malawi expects to achieve above average crop production during the 2020/21 season, owing to consistent rainfall and increased access to inputs by farmers through the government's Affordable Inputs Program. The first-round production estimates by the Ministry of Agriculture and Food Security show that Malawi is expected to produce about 4.4 million metric tonnes of maize, which is 42 percent above the five-year average and 21 percent above the national requirement. These prospects may, however, be revised downward due to dry spells in some southern districts of the country.

6. CONCLUSION

- During the month of February 2021, cross-country economic performance in inflation and exchange rates were mixed, in both the industrialized and emerging market economies, and regional economies. Recognising the importance of maize availability in influencing inflation developments, particularly in the SSA region including Malawi, the analysis was extended to examine trends in maize prices and highlight prospects for the maize crop, from which

inferences for the outlook for domestic and regional food inflation have been drawn.

- Most countries in the SSA region including Malawi, experienced subdued pressures on prices for the staple maize, suggesting that the source of the increase in their February 2021 headline inflation was mostly non-food. Prospects for the 2020/21 maize crop looks promising, as most countries including Malawi are expected to achieve above average crop production due to good rainfall performance. Since maize and its products have a significant weight in the consumer basket in these countries, this is indicative of expected subdued inflationary pressures at the onset of the harvest season.
- However, with the rolling out of coronavirus vaccines across the globe, pressures on international oil prices are expected to build up due to increased economic activity. Materialisation of this upside risk to the inflation outlook, coupled with continued exchange rate pressures, could trigger upward pressures on non-food inflation, thereby partly offsetting the subdued pressures from food inflation. Nevertheless, it is expected that the average domestic headline inflation for 2021 will remain in single digit.
- In summary, the outlook for domestic headline inflation will be determined by the net effects of a good maize and other cereal crops harvest, and spill-over effects from exchange rate depreciation and rising fuel prices.