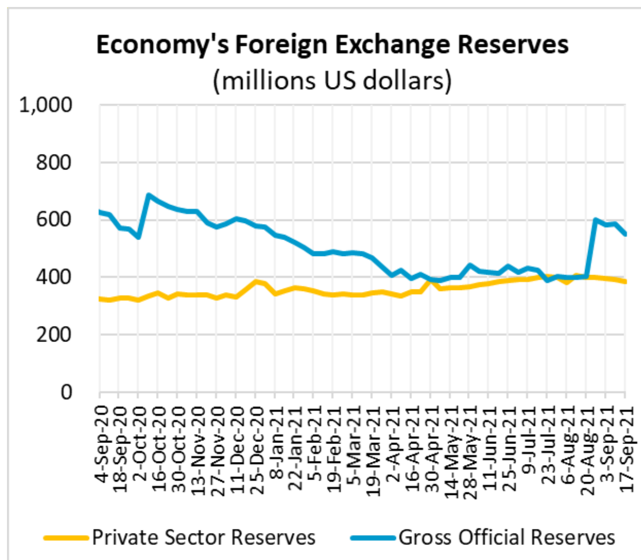
FINANCIAL MARKETS DEPARTMENT

WEEKLY FINANCIAL MARKET DEVELOPMENTS
(13 SEPTEMBER – 17 SEPTEMBER 2021)

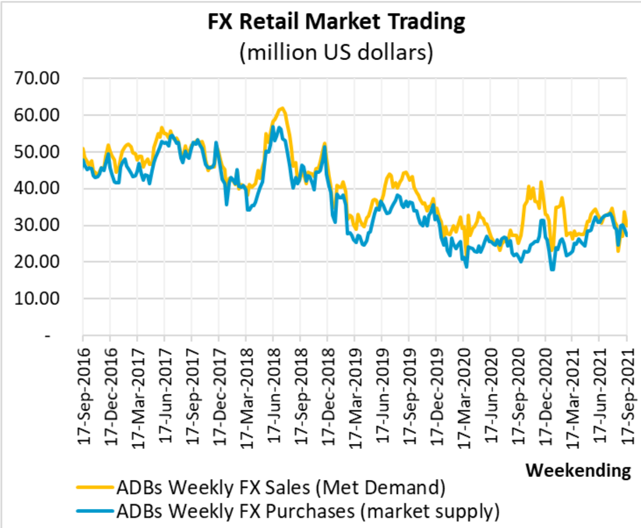
Main Highlights

- ***Gross official foreign exchange reserves declined*** to US$549.2 million (2.20 months of imports) from US$587.6 million (2.35 months of imports) recorded on 10th September 2021.
- ***The Malawi kwacha remains broadly stable,*** losing 0.11% (91 tambala) in process to close the review week at K820.2990 per US dollar. However, the Kwacha gained against the British Pound, the Euro, and the South African Rand.
- ***Banking system liquidity remains tight***. The daily commercial banks' excess reserves *before borrowing from the central bank* averaged negative K72.7 billion compared to negative K81.9 billion recorded during the week ended 10th September 2021.
- ***Reflecting tight liquidity conditions, the sale of government securities continues to be undersubscribed***. Cumulatively in 2021/22 fiscal year, Government has recorded a net maturity of K57.2 billion compared to planned net issuance of K166.6 billion.

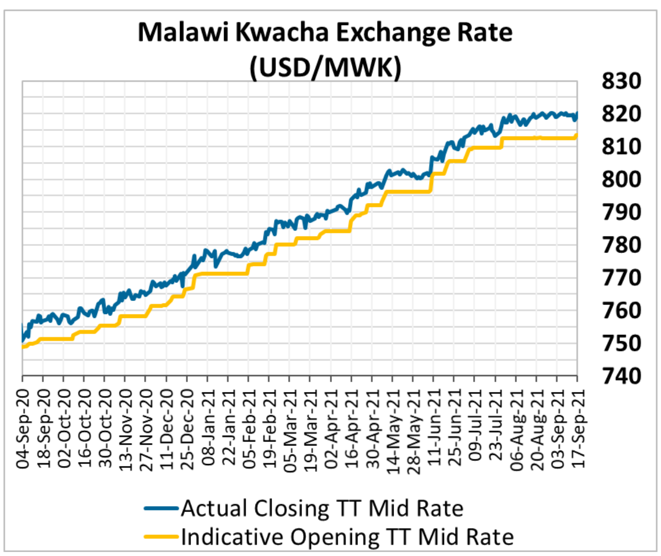
The gross official FX reserves decreased to US$549.2 million (2.20 months of imports) compared to the preceding week's end-period position of US$587.6 million (2.35 months of imports) on account of settling pre-existing obligations.



Supply in the FX retail market declined to US$27.2 million from preceding week's total of US$29.1 million, portraying the general seasonal pattern observed during the past years.

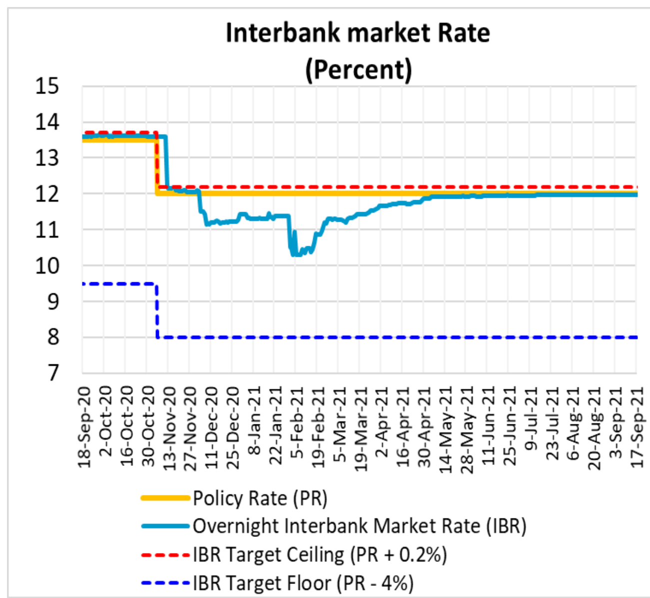


The Malawi Kwacha continued to remain broadly stable and lost 0.11 percent (91 tambala) from a position of K819.3868 per US dollar recorded by end of week ended 10th September 2021 to close at K820.2990 against the US dollar. Nonetheless, the local unit appreciated against other currencies of major trading partners. The Kwacha gained 1.19% (K14.02 movement) against the British Pound, 0.47% (K4.88 movement) against the Euro and 2.00% (K1.22 movement) against the South African Rand.



With the COVID-related dislocations, liquidity conditions in the domestic money market remain remarkably tight, with a marginal improvement from the preceding week's position. The daily commercial banks' excess reserves, *before borrowing from the central bank*, averaged negative K72.7 billion up from negative K81.9 billion recorded during the week ended 10th September 2021. In tandem with the liquidity improvement, daily average access on the Lombard window declined by K4 billion to K93.4 billion. Likewise, trading on the interbank market averaged K15.9 billion per day down from the K22.9 billion per day recorded during the preceding week.

Reflecting the tight liquidity conditions, the IBR remained steady and closely aligned to the policy rate at 11.98 percent. Hence, the IBR remained 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 contractionary, withdrawing a net of about K8.4 billion from the banking system. Liquidity withdrawals from Government net issuance of Treasury securities amounted to K16.1 billion while those from the central bank's net foreign exchange operations totaled K13.3 billion. The withdrawals were partially offset by liquidity injections from (i)

Government operations of about K5.6 billion, (ii) seasonally expected net currency deposits at the central bank by commercial banks amounting to K14.5 billion, and (iii) net open market operations (OMO) of worth about K1.0 billion.

Government continue to under-allot relative to planned issuance on Treasury securities auctions in 2021/22 fiscal year, reflecting impact of persistent tight liquidity conditions. Government raised a total of K16.2 billion on Treasury securities primary market through Treasury bills (K3.5 billion) and Treasury notes (K12.7 billion). The Treasury bills allotment was against planned issuance of K16.1 billion while Treasury notes allotment was against planned issuance of K24.2 billion. This represents allotment to planned issuance ratio for Treasury bills and Treasury notes of 21.46% and 52.53%, respectively. Cumulatively in 2021/22 fiscal year, Treasury securities allotment stands at 85.4% of subscription and 40.2% of planned issuance as per the issuance calendar.