



ECONOMIC POLICY AND RESEARCH DEPARTMENT

MARKET INTELLIGENCE REPORT FOR APRIL 2021

1. OVERVIEW

- During the month of April 2021, economic developments across the globe continued to be mixed. Both the industrialised and emerging market economies, as well as the Sub-Saharan Africa economies, experienced varied performance in inflation and exchange rates.
- Meanwhile, the regional roundup of maize prices indicate that during April 2021, maize prices were relatively stable in some countries but declined in others, owing to increased supply upon the onset of the main 2020/21 harvest period.
- On the domestic front, inflation rate declined in April 2021, principally on account of improved food supplies from the 2020/21 harvest. However, the depreciation of the kwacha observed since the beginning of the second half of 2020 continued into April 2021.

2. DEVELOPMENTS IN SELECTED INDUSTRIALISED AND EMERGING MARKET ECONOMIES

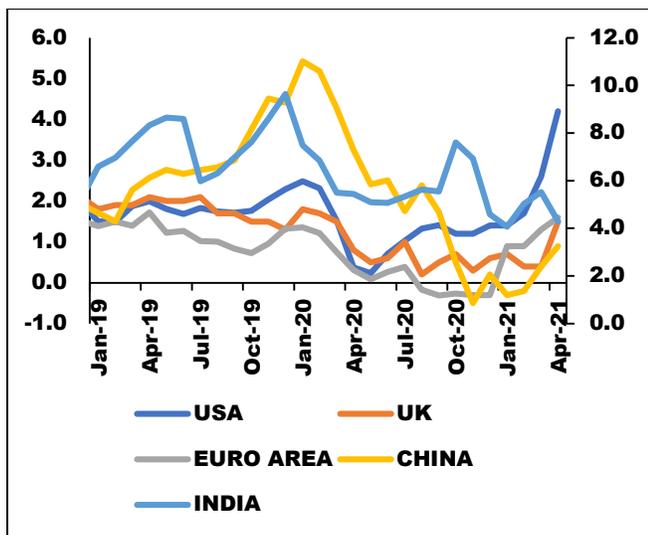
2.1 Inflation Developments

- The Chinese economy saw its inflation rate rising to 0.9 percent in April 2021 from 0.4 percent in the preceding month. The April rate was the highest reading since September 2020. The upsurge reflected an increase in costs of non-food items, particularly transportation and communication which raised non-food inflation rate to 1.3 percent from 0.7 percent in March 2021.
- In the USA, inflation rate also soared to 4.2 percent in April 2021 from 2.6 percent in the previous month, and this was the highest since September 2008. The April outturn was also well above the market forecast of 3.6 percent. The increase was a consequence of picking up of economic activity which, in turn, stimulated demand for commodities, thereby pushing up their prices. In addition, there was a basal effect from low commodity prices in 2020, as the COVID-19 pandemic dented economic activity that contributed to declining inflation to a rate of 0.3 percent in April 2020, from around 2.0 percent before the pandemic. The largest price increases were recorded for gasoline (49.6 percent in April 2021, from 22.5 percent in March 2021) and fuel (37.3 percent in April 2021 from 20.2 percent in March 2021).
- Similarly, the UK economy registered a higher inflation rate of 1.5 percent in April 2021 than 0.7 percent recorded in the preceding month. The April outturn was slightly above the market forecasts of 1.4 percent and was also the highest since March 2020. In tandem with the experience in most countries, the upsurge was a result of increased demand for commodities, upon the easing of the COVID-19 pandemic lockdown restrictions, in addition to the lifting of a cap on energy bills. Specifically, from 1st April 2021, the price cap returned to pre-pandemic levels of £1,138 (implying an increase of £96 from the March 2021 position), principally on account of changes in wholesale energy prices. Meanwhile, the temporary 5.0 percent VAT on hospitality, which will last until the end of September 2021, helped to keep

the costs low. If taxes were at their normal levels, inflation rate would have risen to 3.2 percent in April 2021, the highest in nine years.

- The Euro Area also experienced a surge in its inflation rate to 1.6 percent in April 2021 from the preceding month's position of 1.3 percent, the highest since April 2019. The increase was primarily driven by higher costs of energy (10.4 percent in April 2021 from 4.3 percent in March 2021) and non-energy industrial goods (0.4 percent in April 2021 from 0.3 percent in March 2021). The European Central Bank expects a spike in headline inflation rate on the back of basal effects and temporary factors, which may bring inflation rate to a level above the central bank's target by the end of 2021.

Chart 1: Inflation Rates for Selected Industrialised and Emerging Market Economies (in percent)



- On the contrary, inflation rate for the Indian economy eased to 4.3 percent in April 2021 from 5.5 percent in March 2021. The April rate was the lowest reading in three months but was slightly above the market forecast of 4.2 percent. The decline was attributed to a sharp slowdown in food inflation to 2.0 percent from 4.9 percent in March 2021. However, inflation rate for fuel and light accelerated to 7.9 percent during the month under review, from 4.5 percent recorded in March 2021. Meanwhile, India's future inflation trajectory will be shaped by the course of the COVID-

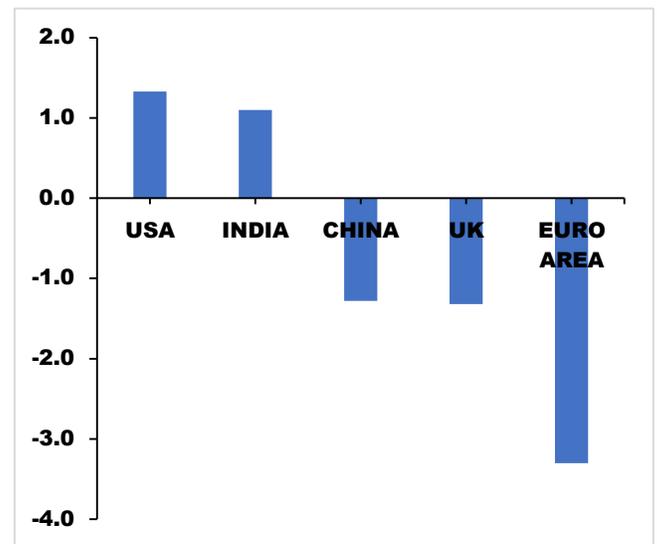
¹ Unlike all countries whose exchange rates have been expressed in terms of the US Dollar, the US exchange rate was expressed in terms of the British sterling, which was chosen considering that it is the strongest currency globally.

19 pandemic, but global commodity price-driven inflationary pressures remain a concern for this economy.

2.2 Exchange Rate Developments

- Developments in exchange rates also depicted mixed performance across the countries during the month under review (see Chart 2).¹
- For example, the euro, British pound sterling and the Chinese yuan registered monthly appreciations against the US dollar, while depreciations were experienced by the US dollar and the Indian rupee. Specifically, the euro appreciated by 3.3 percent in April 2021, while the British pound sterling and the Chinese yuan gained 1.32 percent and 1.28 percent, respectively. In contrast, the US dollar and the Indian rupee lost 1.3 percent and 1.1 percent during the same period, respectively.

Chart 2: Percentage Changes in Exchange Rates for Selected Advanced Economies



- With respect to the year-on-year movements, the British pound sterling, the euro, the Chinese yuan and Indian rupee also appreciated by 10.8 percent, 10.5 percent, 8.5 percent and 2.7 percent in April 2021, respectively, while the US dollar experienced a depreciation of 12.3 percent.

3. DEVELOPMENTS IN SELECTED SUB-SAHARAN AFRICAN ECONOMIES

3.1 Inflation Developments

- Botswana's inflation rate rose sharply to 5.6 percent in April 2021 from 3.2 percent in March 2021, the highest since September 2013. The upsurge was driven by increases in prices for food and non-alcoholic beverages. In addition, prices of transport increased sharply during the period, raising its inflation rate to 7.4 percent in April 2021, from 1.4 percent in the previous month.
- Similarly, the Namibian economy experienced heightened price pressures which saw its inflation rate surging to 3.9 percent in April 2021, from the preceding month's position of 3.1 percent. This outturn made the April 2021 rate the highest for Namibia since June 2019. The upsurge reflected increases in prices for transportation-related items, as reflected in a rise in this component's inflation rate to 7.5 percent in April 2021 from the preceding month's position of 2.4 percent.
- In South Africa, inflation rate also accelerated to 4.4 percent in April 2021 from 3.2 percent in the preceding month. The April outturn was slightly above the market expected rate of inflation of 4.3 percent and is moving closer to the 4.5 percent midpoint of the South African Reserve Bank's target range of 3.0 percent to 6.0 percent. The increase in April was supported by rising prices of items under the transport category which pushed up its inflation rate to 10.6 percent during the period, from 3.8 percent in March 2021. The most notable was fuel which rose by 21.4 percent in April 2021 following another increase by 2.3 percent in March 2021 and this reflected the impact of rising global oil prices.
- The Rwandan economy also witnessed a surge in its inflation rate to 2.7 percent in April 2021, reversing the declining trend which has been observed since October 2020. The development was attributed largely to the impact of rising prices for items under the food and non-alcoholic beverages category, as well as housing and utilities.
- Tanzania also recorded an increase in inflation rate, albeit marginally, to 3.3 percent in April 2021, from 3.2 percent in the previous month. The upsurge was induced by higher prices under the housing and utilities.
- The Angolan economy's inflation rate at 24.8 percent, was virtually the same as the March 2021 position.
- However, in Uganda, inflation rate moderated to 2.1 percent in April 2021 from 2.7 percent in the previous month. The outturn was a result of subdued price pressures for items under food and non-alcoholic beverages.
- Similarly, Mozambique's inflation rate dropped to 5.2 percent in April 2021 from the preceding month's position of 5.8 percent. The downturn was explained by a slowdown in the food and non-alcoholic beverages inflation rate to 11.2 percent in April from 12.7 percent in March 2021.
- In Zimbabwe, the monthly food inflation rate continued to fall in April 2021 where it was estimated at 1.7 percent compared to 2.5 percent in the preceding month. The April 2021 level was significantly lower than the peak of 38 percent in July 2020. The slowdown is largely attributable to a more stable official exchange rate since the fourth quarter of 2020, while large quantities of imported maize (the principal food staple) helped to shore up domestic availabilities and ease pressure on prices.
- Meanwhile, the Kenyan, Nigerian and Zambian economies also recorded decreases in their respective rates, albeit marginally, during the period under review. In particular, Zambia's inflation rate slowed down to 22.7 percent in April 2021 from 22.8 percent recorded in the previous month. The decrease was supported by relatively low food prices.
- Similarly, inflation rate for Kenya declined to 5.8 percent in April 2021 from 5.9 percent in March 2021, reflecting easing pressures from food and non-alcoholic beverages prices.
- Nigeria also recorded a marginal decrease in inflation rate to 18.1 percent in April 2021 from 18.2 percent in the preceding month. Like most countries in the region, food inflation was the driving factor, as it dropped to 22.7 percent from a nearly 16-year peak of 30.0 percent in March 2021.

3.2 Exchange Rate Developments in the Region

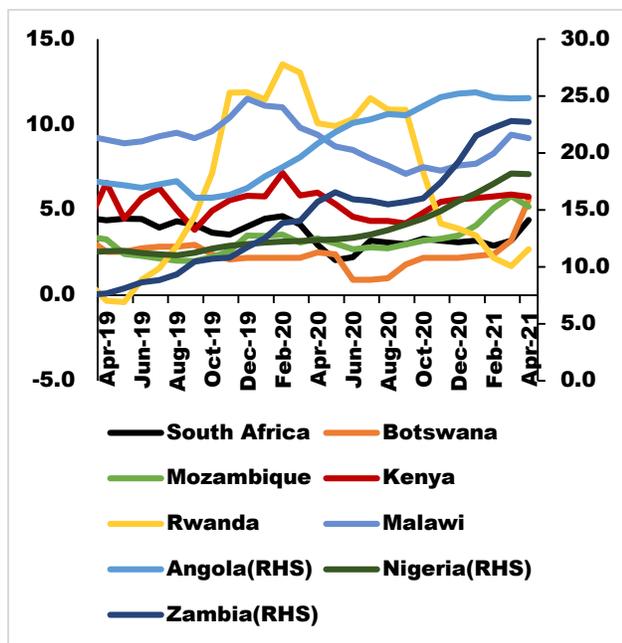
- Regarding exchange rate movements, currencies of some SSA member countries appreciated against the US dollar in April 2021, while others experienced depreciations. The most hit currency was the Angolan kwanza which depreciated by 4.5 percent followed by the Zambian kwacha at 0.7 percent.
- However, as shown in Chart 4, some of the regional currencies appreciated against the US dollar during the month under review. These include the South African rand and Namibian dollar at 3.8 percent each; the Botswana pula at 2.8 percent; the Ugandan shilling at 2.7 percent; the Kenyan shilling at 1.7 percent; the Tanzanian shilling at 0.4 percent; and the Nigerian naira at 0.4 percent.

4. DOMESTIC DEVELOPMENTS

4.1 Inflation Developments

- Consistent with the experience in the regional economies where harvesting of the 2020/21 food crops has commenced, the domestic economy also registered a decrease in the rate of headline inflation to 9.2 percent in April 2021 from 9.4 percent in the previous month on account of food prices. This was reflected in food inflation which eased to 11.5 percent during the month, from 11.7 percent in March 2021.

Chart 3: Inflation Rates for Selected SSA Countries in Percent

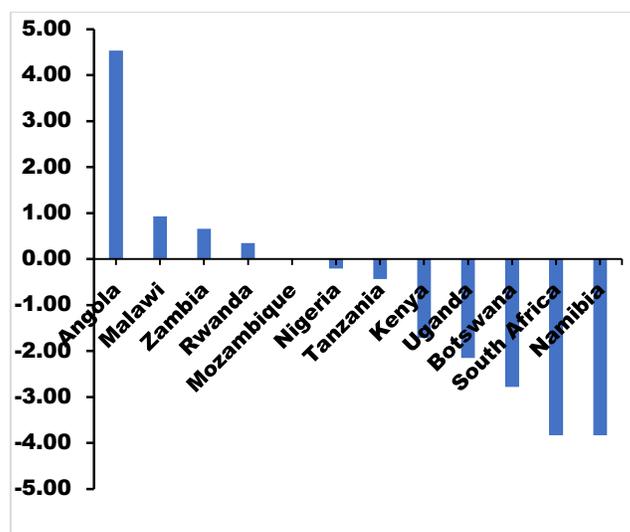


- Chart 3 compares Malawi’s headline inflation rate to some selected SSA countries. It is noted from this Chart that Malawi’s performance in controlling inflation can be ranked as relatively better than Angola, Nigeria (read from right scale) and Zambia, but is poor when compared to countries like Mozambique, Botswana, Kenya, Rwanda, and South Africa.

4.2 Exchange Rate Developments

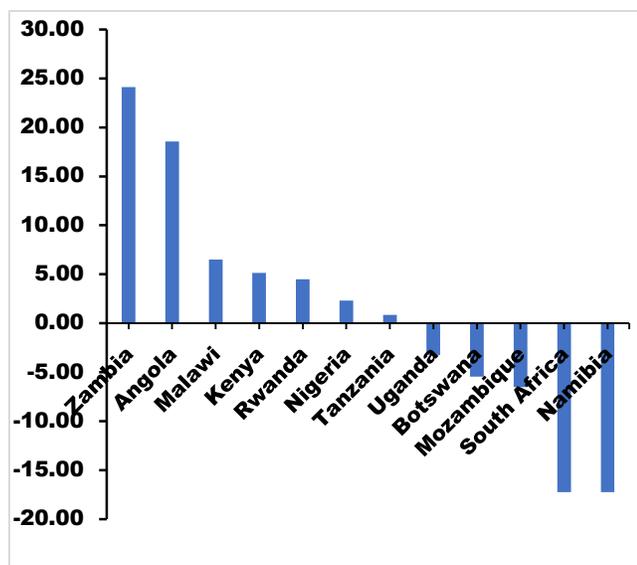
- Like most of the reviewed countries, the Malawi kwacha continued to depreciate against most of its trading partners’ currencies during the month under review. For example, the kwacha lost 0.9 percent against the US dollar between March and April 2021.

Chart 4: Monthly Percentage changes in Local Currency per US dollar as of end-April 2021



- Annually, the kwacha lost 6.5 percent against the US dollar between April 2020 and April 2021. The year-on-year exchange rate developments for countries in the SSA region indicate that the South African rand and Namibian dollar appreciated by 17.2 percent each in April 2021, while the Mozambican metical, the Botswana pula and the Ugandan shilling appreciated by 6.5 percent, 5.4 percent and 3.2 percent during the same period, respectively. However, currencies of the rest of the countries recorded annual depreciation rates of 24.1 percent for the Zambian kwacha; 18.6 percent for the Angolan kwanza; 5.1 percent for the Kenyan shilling; 4.5 percent for the Rwandan franc; 2.3 percent for the Nigerian naira; and 0.9 percent for the Tanzanian shilling (see Chart 5).

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



5. GLOBAL FUEL PRICE DEVELOPMENTS

- In April 2021, the average price of Brent Crude oil stood at US\$64.8 per barrel. This was more than three times the average price for April 2020.
- According to the forecast in the most recent Short-Term Energy Outlook from the US Energy Information Administration, Brent crude oil prices are projected to average US\$60.7 per barrel in 2021 and US\$58.5 per barrel in 2022. This represents a rebound from the 2020 average of US\$41.7 per barrel, but it is still lower than the pre-pandemic levels. The upsurge reflects the impact of restrained production by Organization of the Petroleum Exporting Countries (OPEC+) including Russia.

6. MAIZE PRICE DEVELOPMENTS

6.1 Regional Roundup of Maize Prices

- The Food Price Monitoring and Analysis by FAO released a report in April 2021 which explains regional roundup of maize prices in various regions including the SSA region. The statistics for southern Africa indicate that prices for maize declined or remained stable during April 2021 amid bumper production expectations.
- In South Africa, for example, wholesale maize prices remained unchanged in April 2021 as in the previous month. Maize prices were stable because the upward

pressure in rising global oil prices was countered by expectations of a bumper harvest of maize which has an impact on lowering food inflation.

- In Botswana and Namibia, prices of maize meal were mostly stable in April 2021 compared to the preceding month. Both countries are expected to gather ample harvests this year. However, pest outbreaks and adverse weather conditions in some parts could cause localized production shortfalls and possible price hikes in the affected areas. Meanwhile, prospects of an above-national demand harvest could have dampening effects on food inflation in 2021.
- The Zambian economy also registered a fall in prices of maize grain in April 2021 following another decrease during the previous month. The early seasonal declines were prompted by expectations of an above-average maize harvest in 2021. At the April 2021 level, maize prices were also lower than the ruling price for the corresponding period of 2020. In turn, this contributed to easing of the annualized Zambian inflation rate as discussed in section 3.3.
- In Zimbabwe, domestic cereal production was also forecasted to rebound significantly in 2021 following the weather-reduced levels of the previous two years. The improved supply situation is anticipated to help further contain inflationary pressure for the remainder of the year.
- Similarly, in Uganda, prices of maize unseasonably declined for the second consecutive month to April 2021. The decrease reflected a reduction in exports to Kenya, its main export destination, following enhanced food safety standards to control mycotoxin levels introduced by the Kenyan Government in March 2021.
- Maize prices in Tanzania followed mixed trends in April 2021 but were below their levels in a corresponding month of 2020 in most monitored markets.
- Meanwhile, the Kenyan economy experienced a surge in its maize prices during April 2021, reflecting largely seasonal trends. However, the fall in maize imports from Uganda exacerbated the situation.

6.2 *Domestic Maize Prices*

- Domestically, maize prices declined during the month of April 2021, owing to improved supply upon the commencement of the 2020/21 agricultural harvest.

7. CONCLUSION

- During the month of April 2021, global economies continued to experience mixed performance in both exchange rates and inflation rates. In particular, currencies of most countries, including industrialised and emerging market economies, remained under pressure against the US dollar. With respect to inflation, the surge in international oil prices in recent weeks appears to pose challenges in inflation management across all global country-groupings. However, in the SSA region, the onset of the 2020/21 agricultural harvest season in most countries including Malawi, amid expectations of an above-average production, helped to dampen inflationary pressures in these economies through its impact on lowering food inflation during the review month.
- Looking ahead, the decision to restrain production by the Organization of the Petroleum Exporting Countries (OPEC+) including Russia is the main source of upside risks to inflation across all countries of the world.
- On the domestic front, although a bumper maize harvest is expected to dampen inflationary pressures, this could be outweighed by the spillover effects of the rising fuel prices. Furthermore, the outbreak of the Indian-variant of the coronavirus also poses a risk to the domestic economy, particularly on the exchange rate, given that India is a key trading partner of Malawi.