

RESEARCH REPORT

FIXED INCOME

Q1

Q2

Q3

Q4

| MOROCCO | QUARTERLY Monetary policy

SIGNALS CALLING TO MAINTAIN THE KEY RATE IN THE **SHORT TERM**

- 02 | Inflation in Morocco falls below 3.0% for the first time
- 03 | The international monetary pivot postponed due to a lack of visibility
- 04 | Downward revision of growth and inflation forecasts in 2024E
- 05 | BAM: Favorable signals for maintaining the KR..., at least for two quarters



Attijari
Global Research

KEY RATE		MANDATORY RESERVE		2024E GROWTH		2024E INFLATION	
	<i>Unchanged</i>		<i>Unchanged</i>		-110 BPS		-20 BPS
Q1-24	3.0%	Q1-24	0%	New	+2.1%	New	2.2%
Q4-23	3.0%	Q4-23	0%	Previous	+3.2%	Previous	2.4%

INFLATION IN MOROCCO FALLS BELOW 3.0% FOR THE FIRST TIME

For the 4th consecutive time, Bank Al-Maghrib decides to keep its Key Rate unchanged at 3% during its first monetary policy committee in 2024. The institution had abandoned its restrictive monetary policy, after three cumulative increases of +150 BPS of its Key Rate since September 2022. This decision was widely anticipated by investors ([Cf. Morocco Key Rate Expectations - March-24](#)), and seems consistent with the orientation of international monetary policies, like the FED⁽¹⁾ and the ECB⁽²⁾.

The inflation level in Morocco continues to decelerate since its peak of 10.1% observed in February 2023, a 40-year record. Inflation has fallen below the 3% mark as well as the key rate level, for the first time since the start of the inflationary cycle in October 2021.

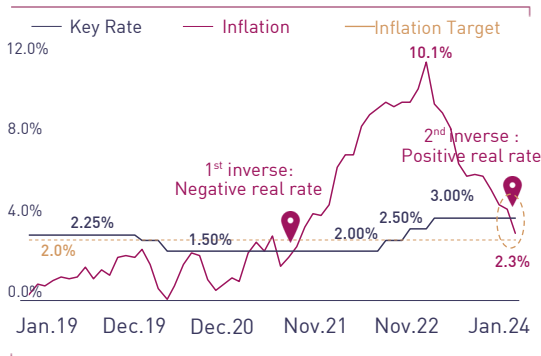
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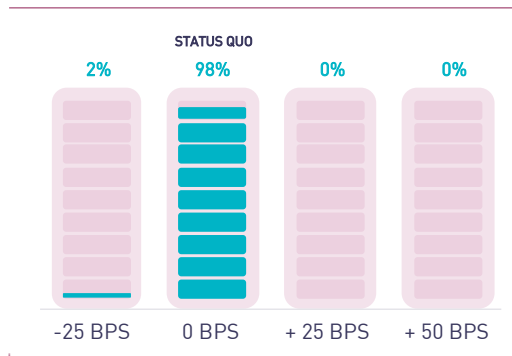
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KR VS INFLATION DECISIONS



KR ANTICIPATIONS - Q1 2024



Based on our own analysis, the Central Bank should remain on a 'wait-and-see' position before initiating a possible monetary pivot in Morocco in 2024E. An opinion fueled by two main reasons:

- Confirmation of disinflation in Morocco.** The mild temperatures observed in Q1-24, measures to support purchasing power and restrictions on the export of certain foodstuffs should ease pressure on consumer prices in Morocco. A trend also reinforced by the easing of energy prices observed internationally.
- The postponement of the monetary pivot internationally.** We rule out the scenario of a drop in BAM's KR before that of the FED and the ECB. Indeed, the FED has just postponed its decision to lower its KR until March 2024 due to the mixed evolution of inflation and the persistence of geopolitical tensions. The institution should only begin a new cycle of easing from June 2024.

EXPERT ADVICE

BAM's new inflation projections improve our visibility regarding the end of the monetary tightening cycle. A decision which should subsequently open the way towards a new stage of easing in Morocco. Initially, the easing of pressures on the remuneration of savings thanks to disinflation, the monetary pivot expected internationally and the new economic challenges and deadlines which Morocco faces.

Despite the KR increase to 3%, the financing conditions of the economy remain adequate in the current context. This is marked by the start of an intense investment cycle, notably through the operationalization of the MVI Fund, the implementation of the MAD 120 Bn program for the rehabilitation of the Southern region and the attribution of the World Cup co-organization in 2030. Taking into account the inflation trend in Morocco, the AGR scenario foresees the maintenance of the KR stable at 3% over the next two quarters.

Sources: Bank Al-Maghrib, HCP, AGR Calculations & Estimates

1-2 Central Banks of the United States and the Euro Zone.

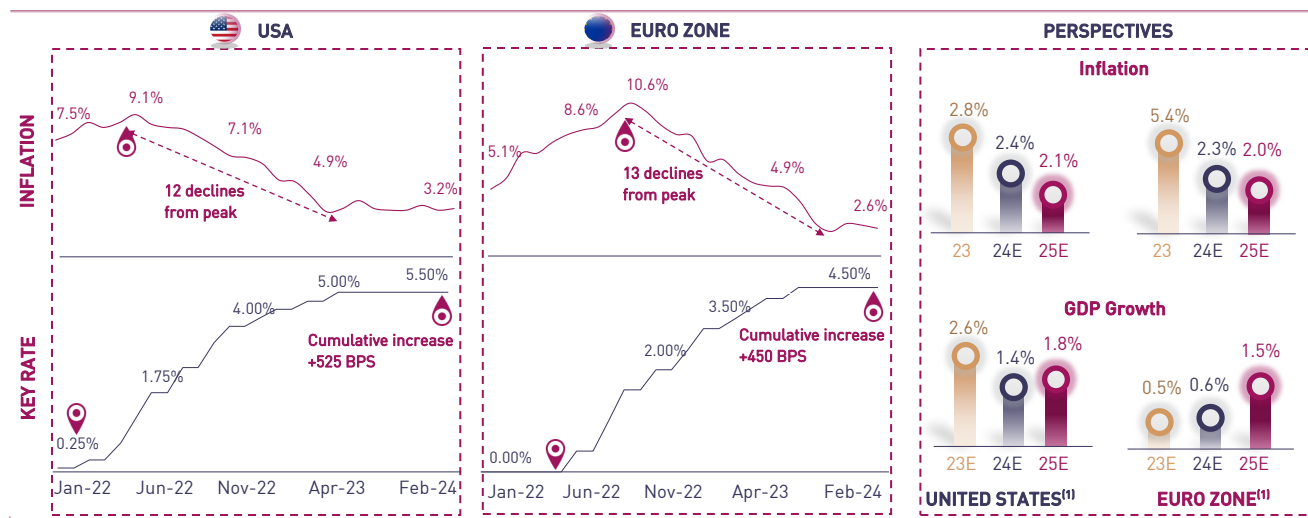
THE INTERNATIONAL MONETARY PIVOT POSTPONED DUE TO A LACK OF VISIBILITY

INFLATIONAL CONCERNS DO NOT SEEM TOTALLY SET AWAY

While expectations of KR reduction from the Fed were very high in March 2024, the institution should keep its monetary policy stable. Indeed, after 11 KR increases since March 2022, the Fed has maintained the status quo of its main KR at 5.5% since July 2023, i.e. a 22-year high. Unsurprisingly, the ECB has kept its KR stable at 4.5% since September 2023, after 10 KR increases initiated in July 2022.

- **In the United States :** The Fed remains vigilant in the face of persistent inflation. After starting 12 successive declines from its record of 9.0% in June 2022 to 3.0% in June 2023, prices have entered a mixed phase. The latter rebounded to 3.2% in February 2024 above the market consensus, after having settled at 3.1% in January 2024;
- **In the Euro Zone :** The deceleration of inflation is more resilient in the EZ, i.e. at 2.6% in February 2024 after a peak of 10.6% in October 2022. Nevertheless, inflation increased to a higher level than that consensus at 2.5% and remains slightly above the European Central Bank's price stability objective of 2%.

INTERNATIONAL : INFLATION VS. KEY RATES 2022-2024



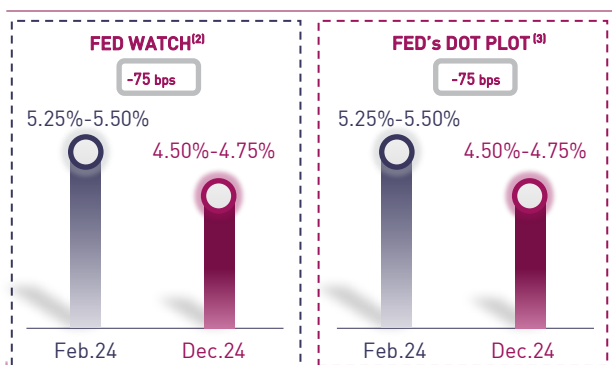
(1) Latest forecasts from the FED (Dec-23) and the ECB (March-24)

THE CALENDAR OF THE FED'S MONETARY PIVOT SHIFTED, BUT REMAINS MAINTAINED IN 2024E

If the end of the restrictive cycle of Central Banks has begun internationally with the achievement of Terminal Rates, the fact remains that the timetable for the monetary easing phase still remains uncertain in 2024. The geopolitical tensions combined to the demands induced by climate change should keep price levels at high thresholds in MT. Nevertheless, inflation forecasts anticipate continued disinflation in the United States and the Euro Zone with projections around 2.4% and 2.3% respectively.

The FED was to be the first of the major central bank to begin lowering rates in March 2024. The disruptions in the Red Sea, the robustness of the labor market and the high level of consumer confidence in the United States pushed the Fed to shift its monetary pivot, at least until next June. The market consensus therefore aligns with monetary policy expectations (Fed's Dot Plot⁽³⁾) of 3 KR cuts in 2024. This is a cumulative of -75 BPS against initial forecasts of -150 BPS last December. With the downward revision of EZ inflation forecasts from 2.7% to 2.3% in 2024E, the ECB appears to be approaching its price stability objective starting 2025E. At the same time, pressures on growth in the EZ should encourage the ECB to begin its pivot from H2-24.

FED FUNDS FORECASTS IN 2024E



(2) Probability of KR change, based on 30-day Fed Funds futures prices
 (3) FOMC Participants' Assessment of Appropriate Monetary Policy

COMMENTS ON ECB RATE FORECASTS IN 2024E

Christine Lagarde
ECB President



The disinflation process is at work...there is clearly a decline and we are making good progress towards a return to our inflation target of 2%.



François Villeroy
Governor of the Bank of France



We are going to bring inflation down to 2% by next year...The consequences we should draw from this is probably to lower rates in the spring.



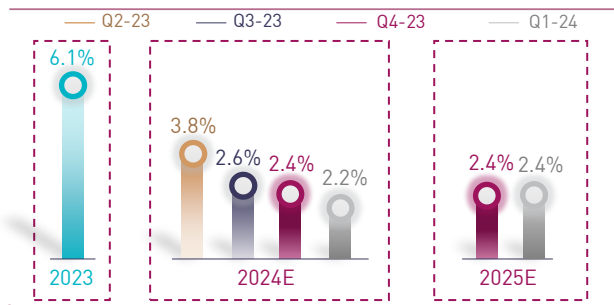
Sources: Official websites of Central Banks, IMF, CME Group, AGR Calculations & Estimates

DOWNWARD REVISION OF GROWTH AND INFLATION FORECASTS IN 2024E

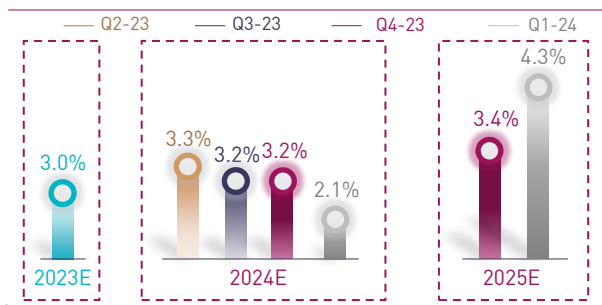
Inflationary pressures in Morocco are expected to ease more quickly in 2024E. Inflation should stand at 2.2% in 2024E compared to an initial forecast of 2.4% after 6.1% in 2023 and 6.6% in 2022. BAM revises its inflation forecasts for the 4th consecutive time in 2024E, before rebounding slightly upwards in 2025E to 2.4%, a level close to the price stability objective.

However, Bank Al-Maghrib is revising its growth forecasts downward for 2024E to 2.1% compared to 3.2% previously due to the rainfall deficit which Morocco is currently experiencing. The 2024 crop should be around 25 MQ compared to 55 MQ a year previously.

MOROCCO : INFLATION FORECASTS EVOLUTION



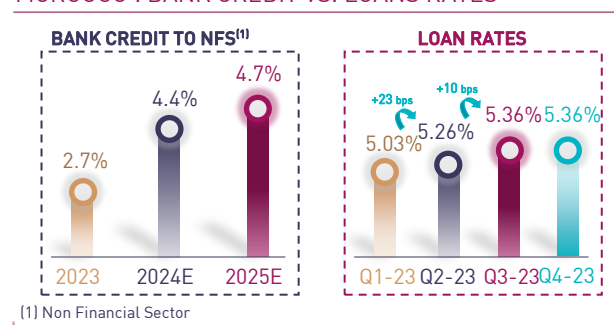
MOROCCO : GROWTH FORECASTS EVOLUTION



AFTER A 75% TRANSMISSION OF THE KR RISE, LOANS RATES PAUSE

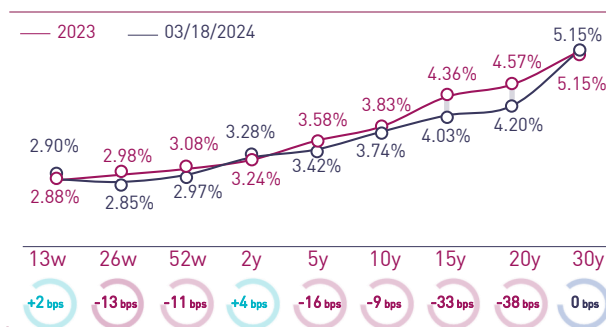
The evolution of loans rates reveals the cessation of the transmission of the +150 BPS KR increase after having increased by +112 PBS since the start of the BAM tightening cycle in September 2022, thus continuing to offer adequate financing conditions. After fully integrating the KR increases in 2023, Moroccan bond rates have started a downward movement since H2-23. The latter should continue their decline in 2024, in anticipation of a possible accommodative phase which would start after confirmation of the status quo by BAM. A scenario supported by continued disinflation combined with the imperatives of supporting growth.

MOROCCO : BANK CREDIT VS. LOANS RATES



[1] Non Financial Sector

MOROCCO : PRIMARY YIELD CURVE

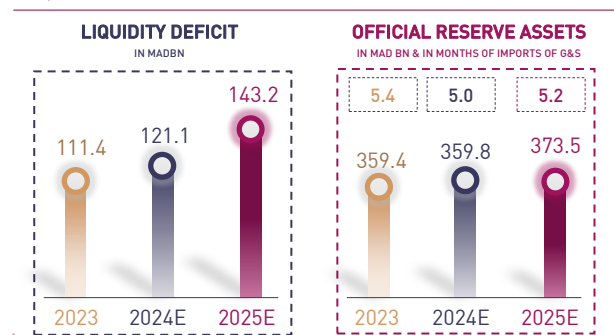


TOWARDS RECORD LEVELS OF "CASH IN CIRCULATION" DURING THE PERIOD 2024E-2025E

Despite record expectations in terms of foreign exchange reserves at nearly MAD 360 Bn in 2024E, the continued increase in fiduciary circulation should continue to penalize liquidity needs. After a significant increase of +11% in 2023E, cash in circulation should increase by +6.8% in 2024E and +7.8% in 2025E. Under these conditions, the liquidity deficit in the banking system is expected to reach a record of nearly MAD 121 Bn, a level never seen since the Covid-19 crisis.

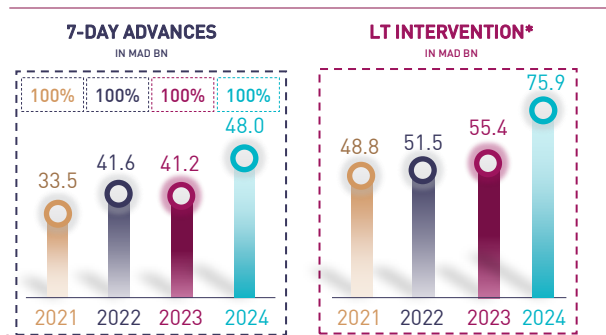
Faced with this need, it must be remembered that BAM continues to be able to fill this deficit on the money market and keep the AWRs in line with the KR, through its main liquidity injections via 7-day advances and its LT instruments.

LIQUIDITY DEFICIT VS. EXCHANGE RESERVES



[1] Official Reserve Assets

BAM INTERVENTION : 7-DAY ADVANCES VS. LT



*Includes Secured Loans, Repo and Foreign Exchange Swaps
Data as of March 21, 2024

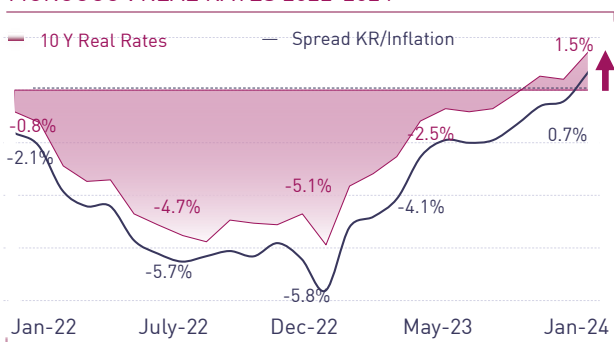
Sources: Bank Al-Maghrib, MEF, AWB trading room, AGR calculations & estimates

BAM: FAVORABLE SIGNALS FOR MAINTAINING THE KR..., AT LEAST FOR TWO QUARTERS

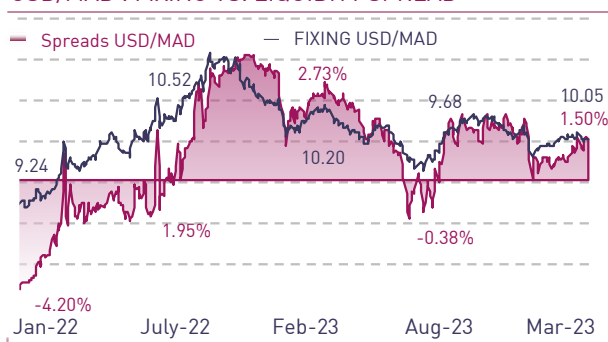
After a restrictive monetary phase of Bank Al-Maghrib during the period from September 2022 to March 2023, marked by a cumulative increase in the KR of +150 BPS, BAM's monetary policy begins a wait-and-see stage marked by keeping of a status quo at 3%. According to our reading of the market, we note several arguments which would support our central scenario of status quo during the next two quarters. Note that a possible monetary pivot could take place towards the end of 2024E.

- (1) *Towards a faster decline in inflation in 2024E.* Inflation in Morocco is expected to continue its downward trend over the coming months and could even fall back into negative territory before starting to rise slightly again in H2-24, taking into account the progressive effects of butane subsidy take out in 2024E. It is :
 - ⇒ The State's deflationary budgetary measures in favor of supporting the purchasing power of households (Transport & Electricity) combined with the implementation in 2023 of the emergency program of around MAD 10 Bn in favor of the agricultural sector in support of production chains and whose effects are visible during Q1-24;
 - ⇒ The limitation of exports of some food products combined with mild temperatures during Q1-24 contributed to the maturity of local products and their availability on the markets. To this end, food inflation has continued to decline since February 2023, reaching 6.7% at the end of December 2023.
- (1) *The clear easing of pressures on the remuneration of national savings.* For the first time since their inversion in October 2021, real rates returned to positive territory, taking into account inflation which fell below the 3% mark to 2.3% in January 2024. A development which attenuates strong pressure on national savings;
- (2) *Absence of tension on the MAD during Q1-24.* While the Fed and the ECB are preparing to begin a strategic reversal of their monetary policy and this after significant cumulative increases of +550 BPS and +450 BPS of KR, we are not seeing any major pressure on the basket of currencies reference of the MAD peg. Consequently, the USD/MAD and EUR/MAD parities show declines of -3.4% and -0.9% respectively in mid-March 2024. Nevertheless, vigilance remains required taking into account a possible continuation of the dirham floating in 2024.
- (3) *Less "favorable" growth projections in 2024E.* Economic activity should once again be penalized by a 3rd successive year of drought marked by a very weak crop over the last decade. Nevertheless, domestic growth should remain supported by record public and private investments as well as the operationalization of unprecedented recovery and rehabilitation plans for the Southern region. At the same time, the financing conditions of the economy remain very comfortable, requiring no rapid intervention from the monetary institution. In this sense, **we estimate that a first drop in the KR could occur at the end of 2024 if conditions remain conducive to continued disinflation in Morocco.**

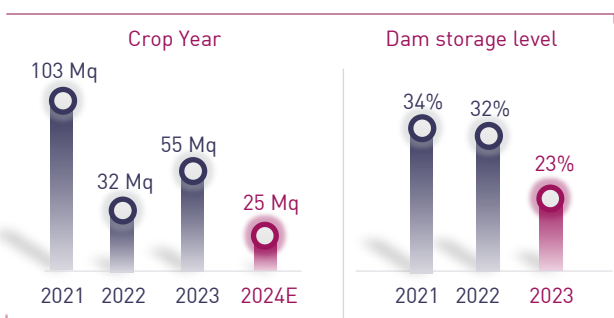
MOROCCO : REAL RATES 2022-2024



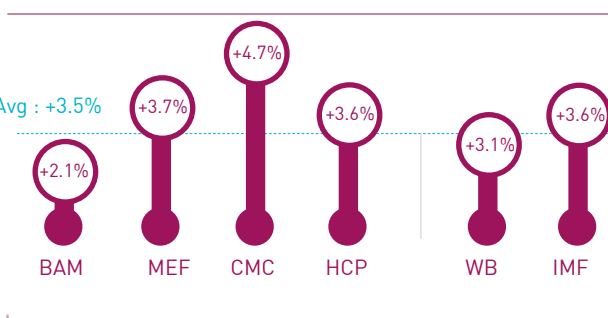
USD/MAD : FIXING VS. LIQUIDITY SPREAD



CROP YEAR VS. DAM STORAGE LEVEL



GROWTH FORECASTS 2024E



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