

RESEARCH REPORT

FIXED INCOME



Q1

Q2

Q3

Q4

| MOROCCO | QUARTERLY Monetary Policy 2024

TOWARDS MAINTAINING THE ACCOMMODATIVE MONETARY POLICY INITIATED IN 2024

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- 03 | The FED follows ECB in catching up on KR cuts
- 04 | BAM revises downwards for the 6th consecutive time its inflation forecasts in 2024E
- 05 | A pause paving the way for further monetary easing by 2025E



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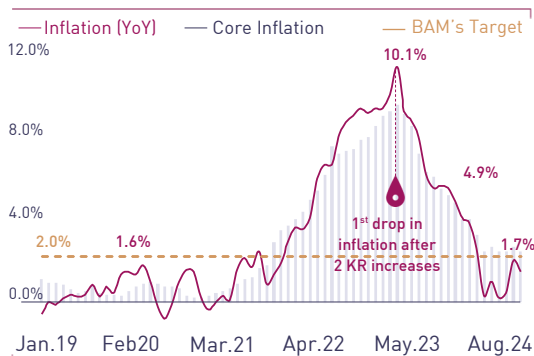
KEY RATE		MANDATORY RESERVE		GROWTH 2024E		INFLATION 2024E	
	Unchanged		Unchanged		Unchanged		-20 BPS
Q3-24	2.75%	Q3-24	0%	New	+2,8%	New	1.3%
Q2-24	2.75%	Q2-24	0%	Previous	+2,8%	Previous	1.5%

BANK AL-MAGHRIB GOES AGAINST MARKET EXPECTATIONS BY OPTING FOR THE STATUS QUO

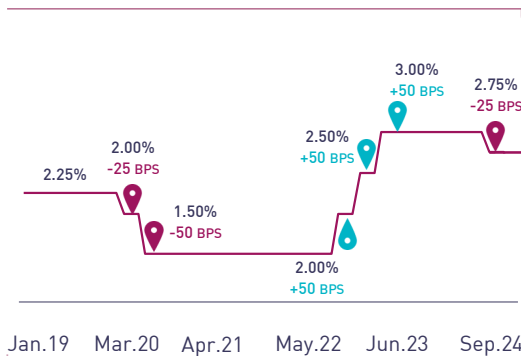
Bank Al-Maghrif confirms a shift away from its restrictive monetary orientation by opting for the status quo during this 3rd committee of the year 2024. After having started a 1st decrease in its KR since the Covid crisis of -25 BPS in June 2024, the institution decides to take a break as part of its easing strategy and keeps its KR stable at 2.75%.

Nevertheless, this monetary pause remains little expected by the financial market. The latter already priced a 2nd successive decrease in the KR of -25 BPS in September 2024 [Cf. [September-24 Key Rate Survey](#)]. To this end, all short-term bond yields have practically crossed downwards the 2.60% threshold on the eve of BAM's decision, i.e. a level below the current KR at 2.75%.

MOROCCO: EVOLUTION OF INFLATION



MOROCCO: EVOLUTION OF KEY RATE



We believe that Bank Al-Maghrif should continue its accommodative monetary policy on the MT. A scenario supported by two main observations:

- Average inflation in 2024 below 2%.** Despite a slight surge in inflation in August 2024 to 1.7% year-on-year compared to 1.3% in July, it remains at moderate levels, i.e. less than 2% since February 2024. Under these conditions, average inflation during these first 8 months of the year stands at only 1.1%, a level well below the price stability target;
- Continued monetary easing internationally.** The FED implemented its first post-Covid KR cut of -50 BPS in September 2024, thus aligning itself with the ECB's KR cuts of -25 BPS in June and September 2024 respectively. The Federal Reserve forecasts further KR cuts by the end of 2024 and during 2025. Thus, BAM could follow a similar accommodative trajectory, ensuring optimal management of the anchoring of the MAD reference currency basket (60% EUR - 40% USD).

EXPERT OPINION

In 2024, Morocco also begins a phase of monetary easing. This direction is reinforced by the sharp deceleration of inflation, despite the start of the decompensation of butane gas in May 2024. Bank Al-Maghrif, the first Central Bank in North Africa to initiate a monetary pivot in 2024 and whose KR remains the lowest in its region, still seems determined to boost productivity, stimulate employment and support the new era of investment in Morocco.

The downward trend in rates would help reduce the cost of government debt and promote better control of its budgetary ratios in the future. **According to our own estimates, each additional KR reduction of -25 BPS would allow the Treasury to save an annual interest expense of around MAD 300 Mn.**

Under these conditions, our scenario forecasts a continuation of the accommodative cycle of Bank Al-Maghrif by 2025.

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THE FED FOLLOWS ECB IN CATCHING UP ON KR CUTS

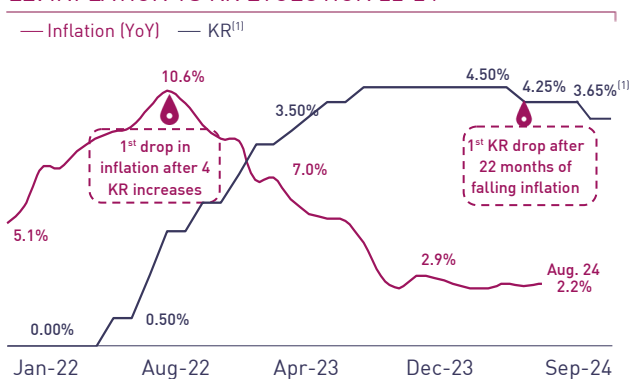
THE ECB TAKES A SECOND STEP IN ITS MONETARY EASING STRATEGY INITIATED ON JUNE 24

For the 2nd time within 3 months, the ECB has decided to ease its monetary policy again and lower its main KR by -25 BPS, after reaching its highest level since the creation of the Eurozone in 1999. Originally, a long cycle of unprecedented monetary tightening by the European Central Bank between July 2022 and September 2023 of around ten KR increases and a phase of monetary status quo which lasted 9 months since September 2023.

The continuation of the ECB's accommodative policy remains justified by the significant decline in inflation, i.e. more than 22 months of decline in the CPI in the Eurozone. In fact, European inflation has practically been divided by five. This stood at 2.2% in August 2024, its lowest level ever since its peak in October 2022 at 10.6% at the height of the Ukrainian crisis and tensions on global supply chains. Thus, in a context of slowing wage increases in the EZ and inflation falling below 2% in the 2 main European economies, France and Germany, the ECB has once again reacted after lowering its rates for the first time in 5 years in June 2024.

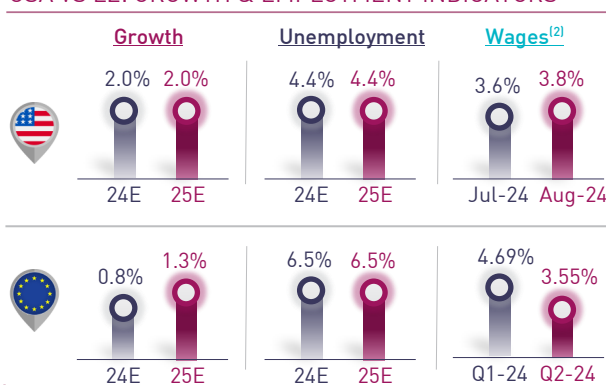
Regarding KR's next decisions, uncertainties remain high and will depend more on the trajectory of inflation, the labor market, wage dynamics and, to a lesser extent, growth prospects, revised downwards once again given the pressures on Demand. For its part, inflation should remain under control at around 2.2% by 2025, a level in line with the European Central Bank's price stability objective.

EZ: INFLATION VS KR EVOLUTION 22-24



(1) ECB refinancing rate. Note that the ECB announced in March 2024 an anchor of 15 BPS of the main refinancing rate above the deposit rate reduced to 3.50% (-25 BPS), which technically means a decrease of -60 BPS for the latter to 3.65%, starting from September 18th.

USA VS EZ: GROWTH & EMPLOYMENT INDICATORS



(2) USA: Average hourly earnings published monthly by the Bureau of Labor Statistics
EZ: Negotiated wage rates published quarterly by the ECB

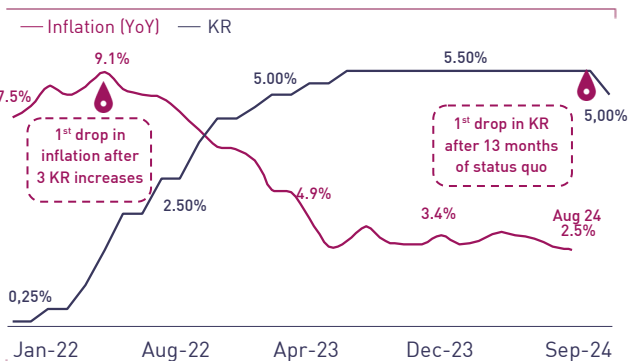
THE FED ANNOUNCES THE FIRST SIGNIFICANT DROP IN ITS KR SINCE THE COVID-19 CRISIS

The FED is announcing the end of its restrictive monetary cycle during this month of September 2024, and is surprising the markets with a drop in its main KR of -50 BPS, thus catching up in one go with the successive cuts made by the ECB of 50 BPS cumulatively since June 2024. Thus, the FED's main Key Rate would be included in a range [4.75% - 5.00%], after having reached a range of [5.25% - 5.50%], its highest level in 20 years. This was a monetary tightening of the FED KR of 10 successive increases between March 2022 and July 2023, and a status quo of monetary policy that lasted one year.

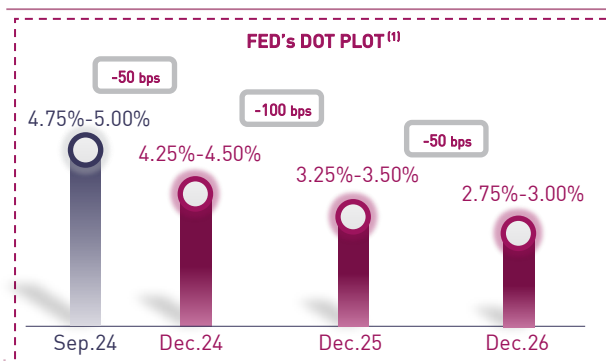
Therefore, with the presidential elections in the United States approaching in November and within a disrupted geopolitical context in the Middle East, the FED is beginning its easing cycle and aligning itself with the accommodative trend of the Central Banks of developed countries internationally. It must be said that the improvement in the inflationary environment as well as the tightening of employment conditions in the United States have finally encouraged the FED to begin its KR rate cut cycle, a first since the covid-19 crisis.

Monetary policy expectations (Fed's Dot Plot⁽¹⁾) reveal an additional easing of -50 BPS by December 2024 and further reductions by 2026. It should be recalled that core inflation forecasts have been revised downwards to 2.6% in 2024E against 2.8% initially and to 2.2% in 2025E while the unemployment rate should stand at 4.4% in 2025E against 4.0% previously.

USA: INFLATION VS KR EVOLUTION 22-24



FED FUNDS FORECASTS IN 2024E-2025E-2026E



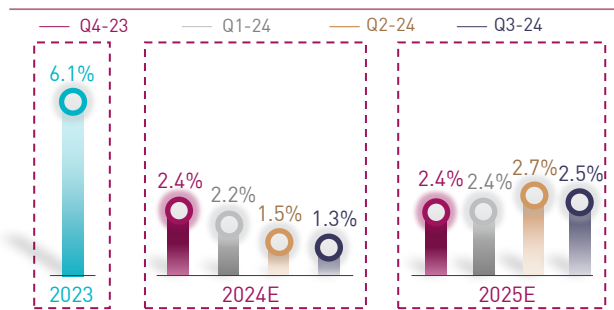
(1) FOMC Participants' Assessment of Appropriate Monetary Policy - September 2024

Sources: Official websites of Central Banks, Bureau of Labor Statistics, CME Group, AGR Calculations & Estimates

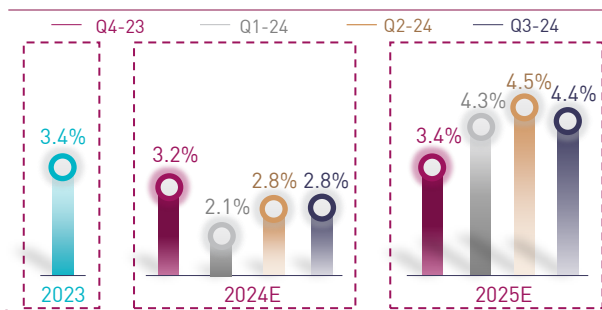
BAM REVISES DOWNWARDS FOR THE 6TH CONSECUTIVE TIME ITS INFLATION FORECASTS IN 2024E

The Government's deflationary budgetary measures to support household purchasing power, the implementation of support for agricultural production chains, family allowances and aid, and the start of targeting commodity subsidies have helped control inflation forecasts in 2024E. The latter stand at 1.3% in 2024E compared to 1.5% initially. The main source of risk surrounding growth forecasts in Morocco remains water stress and the succession of years of drought. In 2024E, economic activity is expected to show a growth rate of 2.8% before accelerating to 4.4% in 2025E under the assumption of a return to a crop season of around 55 MQx compared to a very low level of 32 MQx a year earlier.

MOROCCO: EVOLUTION OF INFLATION FORECASTS



MOROCCO: EVOLUTION OF GROWTH FORECASTS



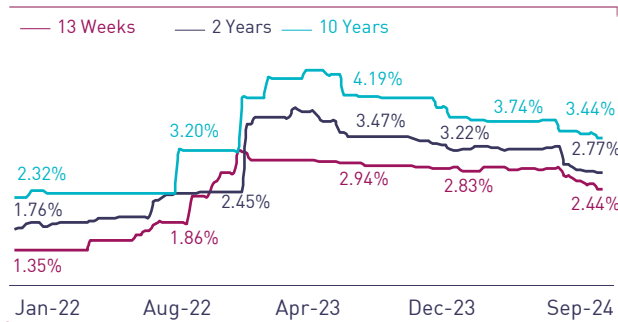
BAM MONETARY PIVOT SUPPORTS DOWNWARD TREND IN BOND RATES IN 2024E

The Treasury's financing cost on the domestic market has continued to decline since Q2-24. In fact, the evolution of Rates in Morocco remains bearish, reinforced by several major factors. These are mainly the decline in investors' required return in a context of declining inflationary pressures and control of the Treasury's financing needs. Moreover, the downward trend was more pronounced following the start of BAM's monetary pivot in June 2024 through a drop in the KR of -25 BPS. In addition, the improvement in Morocco's rating, the downward trend in American and European Rates and the easing of the Kingdom's liquidity spreads reassure investors about the Treasury's ability to raise internationally without difficulty.

FACTORS FAVORABLE TO THE DROP IN BOND RATES

LT Debt Rating BB+ Positive Perspective	Treasury investments MAD 21.6 BN Average in H1-24
Gross monthly requirement MAD 2.8 BN At the end of July 2024	Share of MLT Demand 86% In H1-24

MOROCCO: PRIMARY BOND CURVES

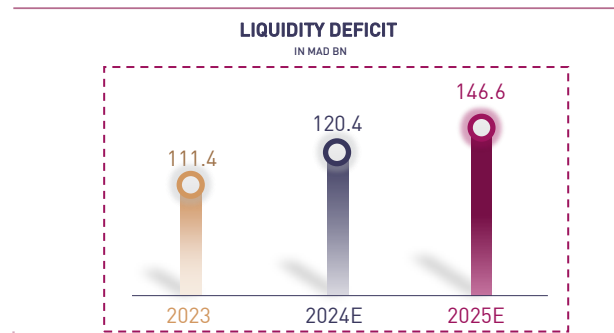


A LIQUIDITY DEFICIT AT HISTORIC RECORDS PENALIZED BY THE EXPANSION OF CASH

The problem of the expansion of fiduciary circulation is expected to persist during the period 2024E-2025E and should continue to negatively impact the evolution of the liquidity deficit of the banking sector in 2024. The latter should experience an upward trend from 2024E due to the expected increase in cash in circulation. As a result, the liquidity requirement of banks should thus cross the MAD 140 Bn threshold by 2025E, a new historical record in Morocco.

Nevertheless, we should see a very favorable evolution of foreign exchange reserves approaching MAD 400 Bn in 2025E under the effect of the materialization of the Treasury's forecast external financing as well as the favorable dynamics of external indicators.

FORECAST: BANK LIQUIDITY DEFICIT



FORECAST: BAM FOREIGN EXCHANGE RESERVES



Sources: Bank Al-Maghrib, MEF, AWB Trading Room, AGR Calculations & Estimates

A PAUSE PAVING THE WAY FOR FURTHER MONETARY EASING BY 2025E

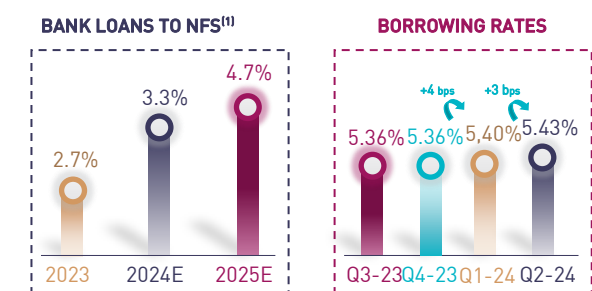
While BAM seems to be in line with the international monetary easing trend mainly in advanced countries and to a lesser extent in emerging countries, it nevertheless remains contrary to the monetary orientation of the major African economies. In fact, the persistence of inflation in Africa has left little room to initiate KR cuts in 2024. To this end, more than 20 African Central Banks have raised their KR since 2023, including 6 countries among the African TOP-10. These are Egypt, Kenya, Nigeria, Tanzania, Angola and Côte d'Ivoire.

Thus, and pending the first transmissions of the monetary pivot in Morocco to the real economy reflected in an easing of borrowing rates for economic actors, BAM is taking a monetary break in September 2024. In fact, the evolution of lending rates reveals a slight increase in Q2-2024, after having increased by +119 BPS since the start of the tightening cycle initiated in September 2022. It should be recalled that Bank Al-Maghrib began its monetary turn by lowering its KR by -25 BPS in June 2024, after having maintained its KR at 3% since June 2023, its highest level in 10 years.

Nevertheless, and based on our reading of market conditions and the macroeconomic environment, we remain convinced that BAM should continue its accommodative monetary policy in the future. Originally, three major orientations. These are:

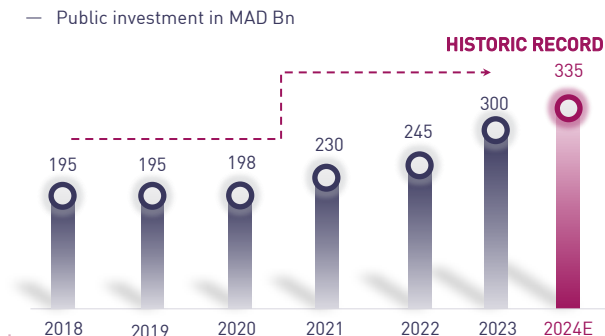
- **Controlling inflation below the KR gives BAM more room for leeway in conducting its monetary policy.** Inflation forecasts remain reassuring for 2025, despite uncertainties related to climatic conditions in Morocco, international commodity prices, and the impact of the start of the gas decomensation process and the continuation of social dialogue within the framework of the FA-25, on prices level. Thus, inflation has been revised downwards once again to 2.5% in 2025E against 2.7% previously, i.e. a level below the current KR by -25 BPS.
- **In a context of reduced tensions on national savings in Morocco following the return to positive real rates, the imperatives of supporting the economy are coming back to the forefront.** While real rates in Morocco should remain controlled in positive territory by 2025, BAM would thus be able to further support the dynamics of economic growth and future investment efforts. The public component stands at record levels of MAD 335 Bn in 2024E. In addition, we should see the continued operationalization of the Mohammed VI Investment Fund, the deployment of the rehabilitation program for the Southern region for MAD 120 Bn as well as the major deadline of the co-organization of the 2030 World Cup.
- **BAM should remain vigilant to the FED's and ECB's guidelines.** While the ECB has not given a clear timetable for its future KR decisions, the Fed, one of the last Central Banks of the global TOP-35 developed countries to operate the monetary pivot in 2024, has revealed its firm intention to continue its KR cuts by 2026E. To this end, concerns about the divergence in monetary policy between the FED and the ECB, political tensions in Europe and the approach of the presidential elections in the United States, could induce volatility movements on the EUR/USD pair.

MOROCCO: BANK LOANS AND BORROWING RATES



(1) Non financial Sector

MOROCCO: A NEW ERA OF INVESTMENT



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

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