

OPERATING ENVIRONMENT – AUGUST 2020 FLASH REPORT

Dear Esteemed Client,

In our bid to keep you well informed regarding key factors that affect your investments, please find below some brief highlights for the month of August 2020:

OPERATING HIGHLIGHTS

- During the month the kwacha came under increased pressure as economic fallout from COVID-19 increased the possibility of default. The local unit came under further pressure following the Central Bank's decision to cut the policy rate. Having opened at 18.19/USD1, the kwacha closed the month on the back foot of the greenback reaching ZMW19.48/USD1 by 31 August, thus translating into a monthly depreciation of 7.08%. On a Year to Date (YTD) basis, the local unit had a movement of -38.12%.
 - **Market liquidity** in the month increased to an average of ZMW 3.79 billion from ZMW 2.52 billion.
 - The average **interbank rate** decreased to 8.48% from 8.98% the previous month.
- Year on year **inflation** decreased for the third consecutive month to 15.5% from 15.8% as a result of a decrease in food items. Food inflation decreased to 15.5% from 16.1% while non-food inflation remained unchanged at 15.4%. On a year to date basis, consumer prices increased by 10.2% as opposed to 6.6% in August 2019.
- **Copper prices** on the London Metal Exchange (LME) opened at USD6,446.5/tonne and closed at USD6,728/ tonne translating into a monthly appreciation of 4.37% and a year to date movement of 9.30%. August provided a perfect cocktail of price supporting factors for the red metal with a pickup in demand, supply issues and expectations of a weaker dollar.
- August recorded a total of three price movements with Lafarge and Puma recording negative movements and Stanchart recording the only positive movement. The biggest loser for the month was Puma which recorded a 16.67% downward movement. The **LuSE All Share** Index closed the month at 3,842.39 points, representing a month on month loss of -0.006% from July and YTD position of -9.90%. The **LuSE Free Float** Index closed the month at 2,196.71 points, representing a month on month loss of -0.007% and YTD position of -7.84%. Speaking to the trading activity, the total number of trades registered on the LuSE was 151 down from 256 the previous month while the total turnover registered for the month was ZMW 47,743,738 up from ZMW 13,918,312 in July.



- The **T-bill auctions** were held on the 13th and 27th of August:

Period (Days)	Amount Offered	Amount Bid	Amount Allocated	Yield Rate (%)	Prev Yield (%)	Change (%)
91	100.00	380.65	196.08	↓ 14.00	⇒ 14.50	↓ 0.5000
182	220.00	466.20	464.93	↓ 17.00	⇒ 17.50	↓ 0.5000
273	330.00	312.07	115.02	↓ 20.00	↓ 21.50	↓ 1.5000
364	650.00	1,847.44	1,539.60	↓ 24.50	↓ 25.41	↓ 0.9143
Total	1,300.00	3,006.36	2,315.63			

Following the policy rate cut by the Central Bank, interest rates continued on a downward trend. Downward yield movements were recorded across the board with the most significant loss being on the 273-day T-bill which dropped by 1.5% to 20%. The first auction had a subscription and allocation rate of 131.88% relative to the amount offered. At cost, the auction sold 113.17% of the total amount on offer. The second auction had a subscription rate of 231.26% and allocation rate of 178.13%. **September auction dates:** 10th and 24th

- The **Government bond auction** held on 21st of August had the following results:

Period (Years)	Amount Offered	Amount Bid	Amount Allocated	Range of Accepted Bids	Range of Rejected Bids	Yield Rate (%)	Prev Yield (%)	Change (%)
2	185.00	474.63	474.63	25.89%-31.95%	None	↑ 31.95	⇒ 30.95	↑ 1.00
3	320.00	133.19	133.19	30.00% - 32.70%	None	⇒ 32.70	⇒ 32.70	⇒ -
5	410.00	15.74	15.74	27.50% - 33.00%	None	⇒ 33.00	⇒ 33.00	⇒ -
7	135.00	-	-	None	None	⇒ 25.00	⇒ 25.00	⇒ -
10	360.00	69.560	69.560	31.50% - 31.50%	None	⇒ 31.50	⇒ 31.50	⇒ -
15	90.00	14.99	14.96	31.55%-32.50%	33.00% - 33.00%	⇒ 32.50	⇒ 32.50	⇒ -
Total	1,500.00	708.11	708.08					

The auction had a subscription and allocation rate of 47.21% relative to the amount offered. Yield movements were recorded on the 2-year bond which increased by 100 basis points to 31.95%. All bids were accepted with the exception of the 15-year bond which rejected a bid at 33%. Majority of the bids were on the shorter end of the curve with the 2 -year being the most sought after. As seen in previous auctions, there were no bids on the 7-year bond. At cost, the auction sold ZMW 446 million. **Next auction date:** Friday 18st September

- **Global equities** as measured by the MSCI World Index had a USD monthly gain of 6.53% (YTD 4.11%). In kwacha terms the index gained 13.61% (YTD +43.83%).

LOOKING AHEAD

- As temperatures began to rise in the month of August and lockdowns were gradually lifted, there was some hope that the COVID pandemic would recede during the warmer summer months. However, despite the rise in temperatures, the virus unfortunately continued to spread with now over 25 million cases globally from 10 million at the beginning of July. Even though the number of cases started to decline in the US and most parts of Asia, some regions such as Europe are now experiencing a second wave. Nonetheless, the swift and sizable COVID-19 policy response from major central banks and governments has aided in cushioning the economic shock and lift markets as policymakers aim to build a bridge to the other side of the virus. The second wave in Europe reminds us that the battle is far from over and until a vaccine is widely available, economies are likely to remain constrained by measures aimed at slowing the spread of the virus.
- Locally, the Monetary Policy Committee held their quarterly meeting on 17-18 August and lowered the Monetary Policy Rate by a further 1.25% to 8% as a means of safe guarding the stability of the financial sector as well as people's lives and livelihoods. As a result, money market liquidity rose above ZMW 3 billion and the interbank interest rate came down to an average of 8.5%. Furthermore, the IHS Markit released the purchasing manager's indices (PMI) number for Zambia which fell to 43.4 from 44.6 in July. The reading is a forward looking indicator meant to signal the direction of economic activity based on sub-indices such as output, new orders, employment, pricing and sentiment. The below 50 reading indicated a continued contraction in the private sector as a result of weak demand and an increase in unemployment. With the local economy projected to contract by 4.2% in 2020 and sharp falls in revenues in industries such as travel and mining, a sustained contraction in the private sector can be expected at least until the pandemic is contained.
- The central bank issued a statement on the developments in the foreign exchange market following the renewed pressure on the Kwacha. The statement highlighted immense pressure on FX supply mainly from the mining sector as a result of operational challenges as well as gradual reduction in overall exports following the outbreak of the corona virus. Furthermore, foreign investors who previously invested in government securities have additionally been negatively impacted by the pandemic and are therefore no longer investing as much as they previously did. On the demand side, foreign exchange requirements for the importation of agricultural inputs, health related supplies and fuel remain high. Additionally, as Zambia's external debt remains elevated slightly above \$11 billion and gross international reserves stand at \$1.4 billion (2.3 months of import cover) the FX demand for debt service payments remains high. The outlook for the currency is gloomier, as reserves remain low there is little room for Central Bank intervention. Looking ahead, the Ministry of Finance is expected to deliver the 2021 budget speech on Friday 25th September.

We shall endeavour to keep you abreast of key events as and when they occur, to ensure you are able to make more informed decisions as we aim to fulfil the fund objectives

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