

## OPERATING ENVIRONMENT – APRIL 2021 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 April:

### OPERATING HIGHLIGHTS

- In April, the **kwacha** opened at ZMW22.08/USD1 and closed at ZMW22.30/USD1 translating into a monthly depreciation of 0.97%. On a Year to Date (YTD) basis the local unit had a movement of -5.39%. The bearish bias remains for the local unit as demand for hard currency continues to outweigh supply.
  - **Market liquidity** decreased to an average of ZMW 3.27 billion from ZMW 3.67 billion while the average **interbank rate** increased to 8.60% from 8.58%.
- Annual **inflation** marginally declined to 22.7% from 22.8% in March. The drop in consumer prices was mainly attributed to the downward price movement in food items. Annual food inflation slowed down to 27.2% from 27.8% while non-food inflation quickened to 17.5% from 17.0%. On a month on month basis, inflation was up 0.5 percentage points to 2.2% from 1.7% the previous month.
- **Copper prices** on the London Metal Exchange (LME) opened at USD8,850.5/tonne and closed at USD9,949.0/tonne translating into a monthly appreciation of 12.41% and YTD movement of 28.52%. Copper prices rallied as some of the world's largest economies showed signs of recovery from the COVID-19 impact, thus boosting expectations of increased demand.
- April recorded a total of five price movements on ZCCM (-2.06%), StanChart (-0.74), AELZ (18.10%), Lafarge (25.23%) and Puma (55%). The **LuSE All Share Index** closed the month at 4,109.31 points, representing a monthly gain of 2.19% and YTD position of 5.03%. The **LuSE Free Float Index** closed the month at 2,344.60 points, representing monthly gain of 2.36% and YTD position of 5.27%. With regard to trading activity, the total number of trades registered on the LuSE was 575 up from 564 in March while total turnover registered for the month was ZMW3,023,957 down from ZMW31,986,953.
- **Global equities** as measured by the MSCI World Index had a USD monthly gain of 4.52% (YTD +9.25%). In kwacha terms the index gained 5.54% (YTD +15.14%).



- The **T-bill auctions** held on the 8<sup>th</sup> and 22<sup>nd</sup> of April had the following results:

Period (Days)	Amount Offered	Amount Bid	Amount Allocated	Yield Rate (%)	Prev Yield (%)	Change (%)
91	210.00	358.17	358.58	⇒ 14.03	⇒ 14.03	⇒ -
182	240.00	263.27	263.27	⇒ 16.03	⇒ 16.03	⇒ -
273	250.00	202.90	202.90	⇒ 20.00	⇒ 20.00	⇒ -
364	700.00	751.20	751.20	⇒ 25.75	⇒ 25.75	⇒ -
<b>Total</b>	<b>1,400.00</b>	<b>1,575.54</b>	<b>1,575.95</b>			

Source: Bank of Zambia

April saw a total of 2 Treasury Bill auctions. As seen in the March auctions, yield movements remained unchanged across the board. The first auction saw a subscription rate of 99.27% and allocation rate of 99.12% while the second saw that of 113.94% and 113.77%, relative to the amount offered. At cost, the first auction sold 82.75% while the second sold 96.04%.

- The **Government bond auction** held on 30<sup>th</sup> April 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	470.56	470.56	31.00%-32.00%	None	⇒ 32.00	⇒ 32.00	⇒ -
3	320.00	153.59	53.59	31.90% - 32.70%	35.50% - 35.50%	⇒ 32.70	⇒ 32.70	⇒ -
5	410.00	721.82	721.82	32.50% - 34.50%	None	⇒ 34.50	⇒ 34.50	⇒ -
7	135.00	0.005	0.005	30.10% - 30.10%	None	⇒ 30.10	⇒ 30.10	⇒ -
10	360.00	275.350	5.35	34.00% - 34.50%	36.75% - 36.75%	⇒ 34.50	⇒ 34.50	⇒ -
15	90.00	202.62	2.62	33.70%-34.50%	36.25% - 36.25%	⇒ 34.50	↑ 34.50	⇒ -
<b>Total</b>	<b>1,500.00</b>	<b>1,823.95</b>	<b>1,253.95</b>					

Source: Bank of Zambia

The bond auction was held on 30<sup>th</sup> April. The auction had a subscription rate of 121.60% and allocation rate of 83.60%, relative to the amount offered. Yields remained unchanged across the board. Bids were rejected on the 3-year bond at 35.50%, the 10-year bond at 36.75% and the 15-year at 36.25%. At cost, the auction sold 47.92%.

- The April **Purchasing Managers Index (PMI)** came in at 50.1 up from 49.7 in March signaling an expansion in the private sector for the first time since February 2019. Despite recording only fractional improvement in the overall health of the private sector, new business expanded for the first time in 26 months and led to the slowest fall in activity as well as renewed growth of input buying.

## LOOKING AHEAD

- The fractional fall in year on year inflation ended seven consecutive months of rising consumer prices. As inflation remained well above the target of 6-8% set by the Bank of Zambia (BoZ), the Monetary Policy Committee (MPC) was forced to raise the policy rate by 50 basis points, from 8% to 8.5% in its February meeting. The hike was made despite of the ongoing economic troubles signalling that the central bank was finally determined to fight the escalating inflation rates. On balance, the MPC is expected to maintain its accommodative monetary policy stance despite the upward risks to inflation at its next meeting on May 17<sup>th</sup> – 18<sup>th</sup>.
- Zambia's GDP growth sharply decelerated from 5.9% in Q3 2018 to 2.5% in Q4 2018, continued to slow in 2019 to 1.4% and finally recorded a year long recession in 2020 at -3.0%. The 2019 sluggish growth was to a large extent attributed to the severe drought that affected agriculture and electricity production coupled with the drop in copper prices that crippled the performance of the mining industry. However, both industries registered a remarkable comeback in 2020. Post the end of the 2021 first quarter, economic activity has improved as evidenced by April's PMI reading of 50.1. Further, Copper also bounced back reaching 10-year record highs which could aid an economic recovery if coupled with increased copper production. However, the threat of a third wave of the corona virus pandemic remains a looming risk to an economic recovery.
- The short to medium term outlook remains shrouded by uncertainty. Negotiations with debt collectors and discussions with the International Monetary Fund (IMF) are being held, however, with the August 12 general elections swiftly approaching, there is a growing chance that both negotiations could be put on hold. The agreement with international creditors is a central element required to fulfil the goals set in the 2020-2023 economic recovery plan. The IMF's assistance will be tied to fiscal and debt sustainability conditions, and the agreement with bondholders will increase transparency for all parties involved, thus boosting the government's credibility and improving economic conditions, which may serve to attract inflows of foreign direct investment to Zambia in the medium to long term. This would be an essential requirement to promote economic growth.
- Globally, expectations for spectacular economic growth turned from forecasts to facts, as the reopening of economies lifted developed market economic data. Equity markets had another strong month with the US S&P 500 returning 5.3% in USD terms while more cyclical markets such as the MSCI Europe ex-UK and the TOPIX in Japan lagged, returning 2.1% and -2.8%, respectively. Beneath the headline indices, the rotation trade from growth to value took a breather in April, with growth stocks returning 6.3% and value stocks 3.2%.

We shall endeavor 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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