

MONTHLY FLASH REPORT

AUGUST 2021

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 2021:

OPERATING HIGHLIGHTS

- In August, the **kwacha** opened the month at ZMW19.16 and closed at ZMW15.88 translating into a substantial monthly gain of 17.11% and year to date movement of +24.91%. The kwacha remained on the front foot for the second consecutive month owing to increased foreign exchange supply as well as improved investor sentiment.
 - Money **market liquidity** significantly increased to an average of ZMW 4.67 billion from an average of ZMW2.89 billion, and the average **interbank rate** fell to an average of 8.50% from 8.57% in June.
- Annual **inflation** decreased to 24.4% from 24.6% the previous month owing to downward price movements in non-food items. Annual non-food inflation fell to 16.3% from 17.0% while annual food inflation increased by 0.4 percentage points to 31.6%. On a month on month basis, inflation was up by 0.1 percentage points to 0.4%.
- Copper prices** on the London Metal Exchange (LME) opened at USD9,747.50/tonne and closed at USD9,462.50/tonne translating into a monthly drop of 2.92% and YTD movement of 22.23%. Copper prices fell below \$9,000/tonne, the first time since the peak in May, due to bearish sentiment arising from the delta variant outbreak in some parts of the globe, and mixed outcomes from labor strikes experienced by some mines in South America. These among other factors negatively impacted the demand outlook for the red metal.
- August recorded a total of seven price movements on the local stock exchange with Lafarge (-9.46%), Zambrew (-3.18%), BATZ (-0.56%) and ZCCM (-0.03%) recording negative movements, while REIZ (25.0%), Zambeef (25.0%) and Zambia Sugar (22.25%) recorded positive price movements. The **LuSE All Share Index** closed the month at 4,713.13 points, representing a monthly gain of 0.66% and YTD position of +20.47%. The **LuSE Free Float Index** closed the month at 2,779.43 points, representing a monthly gain of 2% and YTD position of +24.79%. Speaking to the trading activity, the total number of trades registered on the LuSE was 519 down from 645 in July while the total turnover registered for the month was up to ZMW23,473,569 from ZMW11,560,118.
- Global equities** as measured by the MSCI World Index had a USD monthly gain of 2.35% (YTD +16.78%). In kwacha terms the index had a return of -15.16% (YTD -12.32%) as a result of the continued appreciation of the local currency against the greenback.

- The **T-bill auctions** were held on the 11th and 26th of August:

Period (Days)	Amount Offered	Amount Bid	Amount Allocated	Yield Rate (%)	Prev Yield (%)	Change (%)
91	210.00	30.83	30.83	⇒ 13.99	⇒ 13.99	-
182	240.00	53.81	53.81	↓ 16.00	⇒ 16.03	0.0266
273	250.00	225.10	225.10	⇒ 17.80	↓ 17.80	-
364	700.00	1,325.24	1,325.21	↓ 25.50	⇒ 25.50	0.0009
Total	1,400.00	1,634.98	1,634.95			

The month of August saw a total of 2 Treasury Bill auctions, both of which were fully subscribed. The first auction recorded a yield movement on the 273-day which fell by 20 basis points to 17.8% while the second auction saw the 182-day and 364-day marginally drop by 0.027 percentage points and 0.0009 percentage points, respectively. At cost, the first auction sold 100.36% while the second sold 95.34%, relative to the amount offered.

- The **Government bond** auction held on 27th 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	727.23	255.07	9.00%-23.00%	24.00%-29.90%	↓ 23.00	↓ 29.90	(6.90)
3	320.00	1,258.80	450.15	10.00%-24.00%	25.00%-31.49%	↓ 24.00	↓ 30.50	(6.50)
5	410.00	4,544.37	1,326.56	11.00%-25.00%	25.49%-32.99%	↓ 25.00	↓ 32.00	(7.00)
7	135.00	1,428.330	290.890	24.09%-26%	26.99%-30.00%	↓ 26.00	⇒ 30.10	(4.10)
10	360.00	2,889.120	1,546.97	24.14%-26.99%	27.00%-29.50%	↓ 26.99	↓ 31.00	(4.01)
15	90.00	1,631.63	212.76	24.24%-27.00%	27.74%-32.90%	↓ 27.00	↓ 32.90	(5.90)
Total	1,500.00	12,479.48	4,082.40					

The bond auction was heavily subscribed with bids received being more than eight times the amount offered. The auction had a record high subscription rate of 831.97% and allocation rate of 272.16%, relative to the amount offered. Downward yield movements were recorded across the board with the most significant drop being on the 5-year bond which fell by 7 basis points. While bids were rejected across all tenors, accepted bids were as low as 9%. At cost the auction sold ZMW 2.5 billion, translating into 166.67% of the amount offered.

- The August **Purchasing Managers Index** (PMI) came in at 49.8 up from 49.4 in July. The month saw signs of improved business activity in the Zambian private sector mainly due to a more bullish outlook on consumer demand amid the strengthening local currency.

Tel: +260) 211 254841 | Fax: (+260) 211 253112;

Address: 74 Independence Avenue, P. O. Box 51331, Lusaka, Zambia;

Email: www.aflife.co.zm

LOOKING AHEAD

- While the month of August has historically been known as one of the worst months for global equities due to the tendency by investors to make adjustments to their portfolios at the end of summer and take profits, this was not the case this year. U.S equity indexes hit new highs with the S&P 500 climbing higher for seven straight months, its longest winning streak since January 2018, delivering a monthly return of 3.0% in USD terms. It was clear that inflation concerns, supply chain constraints, labor shortages and the threat of the Delta variant were not enough to keep global markets down. Although it is expected that global equities will remain positive for the rest of the year on account of the accommodative monetary and fiscal policies adopted by major economies, investors will be anxiously awaiting the US central bank's Federal Open Market Committee meeting (FOMC) on September 22 for more details on the Federal Reserve's plans to taper its asset purchases and latest interest rate forecasts. This suggests that global equity markets could experience some bouts of volatility in the period leading up to the FOMC meeting.
- Locally, the political uncertainty was safely put to rest following the victory of the United Party for National Development (UPND) leader, Hakainde Hichilema, in the presidential election. Following the announcement, the kwacha appreciated to levels last seen last seen in March 2020, closing the month south of the 16.00 mark against the US dollar. While the recent stellar performance of the local unit can be attributed to investor euphoria as well as the impact of the central bank intervention in the previous month, the performance of the kwacha in the upcoming months remains uncertain. On the one hand a further appreciation could be driven by improved investor confidence, high copper prices and high interest rates attracting portfolio flows from offshore investors, while on the other hand Zambia's high foreign currency debt levels continue to be a risk to the performance of the kwacha.
- The Bank of Zambia's (BoZ) Monetary Policy Committee (MPC) held their quarterly meeting on August 30th – 31st and maintained the policy rate at 8.5% based on the view that inflationary pressures will decrease over the forecasted period and edge closer to the target band of 6% - 8%. With the recent drop in annual inflation and expected improvement in the fiscal imbalance under the new government, the MPC will most likely hold the policy rate in its November meeting in efforts to support Zambia's economic recovery.

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.