OPERATING ENVIRONMENT – DECEMBER 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 December:

OPERATING HIGHLIGHTS

- In December, the **kwacha** lost 0.44% against the US dollar opening at ZM21.06/USD1 and closing at ZMW21.15/USD1. On a year to date basis (YTD) the local unit ended the year with a movement of -50.00%. The kwacha remained on the backfoot of the greenback as deteriorating fiscal conditions continued to add downside pressure.
    - **Market liquidity** decreased to an average of ZMW 3.29 billion from ZMW 3.46 billion.
    - The average **interbank rate** increased to 8.14% from 7.99%.
- Annual **inflation** accelerated for the fourth consecutive month to 19.2% from 17.4%. Consumer prices were driven upward as a result of price movements in food items. Food inflation rose from 16.8% to 20.2% while non-food inflation decreased from 18.2% to 18.1%.
- **Copper prices** on the London Metal Exchange (LME) opened at USD7,674.50/tonne and closed at USD7,741.50/ tonne translating to a monthly appreciation of 0.87% and a year to date movement of 25.77%. Copper prices neared their highest in almost 8 years as global stock piles fell and US dollar weakness drove dollar denominated asset prices upward.
- December recorded a total of four price movements with REIZ and Lafarge recording negative movements while CEC and Zanaco had positive price movements. REIZ continued to underperform other counters, recording a loss of 40%. The **LuSE All Share Index** closed the month at 3,912.33 points, representing a month on month gain of 3.48% from November and YTD position of -8.26%. The **LuSE Free Float Index** closed the month at 2,227.21 points, representing a month on month gain of 4.09% and YTD position of -6.57%. Speaking to the trading activity, the total number of trades registered on the LuSE was 565 up from 345 the previous month and the total turnover registered for the month increased to ZMW17,614,620 from ZMW 10,259,380.

AFRICAN LIFE FINANCIAL SERVICES (Z) LIMITED

- The **T-bill auctions** were held on the 3rd, 17th and 31st of December:

Period (Days)	Amount Offered	Amount Bid	Amount Allocated	Yield Rate (%)	Prev Yield (%)	Change (%)
91	100.00	232.29	232.29	14.00	14.00	-
182	220.00	3.62	3.62	16.00	16.00	-
273	330.00	0.89	0.89	19.50	19.65	0.1501
364	650.00	668.42	668.42	25.75	24.52	1.2273
Total	**1,300.00**	**905.22**	**905.22**			

The month of December saw a total of three Treasury Bill auctions. The first saw subscription and allocation rates of 150.21% and 145.58%, respectively. The second and third saw a reduction in participation with subscription and allocation rates below 100%. At cost the first auction sold the most at 125.50% while the second sold the least at 49.89%, relative to the amount offered. Yield movements were recorded in the last auction which saw the 273-day T-bill drop by 0.15 percentage points to 19.5% while the 364-day T-bill increased by 1.23 percentage points closing at 25.75%. Overall, majority of investor interest was on the 364-day T-bill.

- The **Government bond auction** held on 24th of December 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	233.86	233.86	29.89%-32.00%	None	32.00	32.00	-
3	320.00	4.61	4.61	32.70% - 32.70%	None	32.70	32.70	-
5	410.00	138.17	18.17	33.00% - 33.00%	37.00% -37.00%	33.00	33.00	-
7	135.00	0.010	0.01	30.10% - 30.10%	None	30.10	30.10	-
10	360.00	282.160	282.16	33.00% - 34.50%	None	34.50	34.50	-
15	90.00	13.08	12.17	33.50%-33.50%	34.00% - 35.00%	33.50	33.50	-
Total	**1,500.00**	**671.89**	**550.98**					

The auction had a subscription rate of 44.79% and allocation rate of 36.73%, relative to the amount offered. Bids were rejected on the 5 year and 15 years which saw bids as high as 37% and 35%, respectively. Yields remained unchanged across the board with majority of investor interest being on the 2-year and 10-year. At cost, the auction sold ZMW 306.58 million translating to 20.44% of the amount offered.

- **Global equities** as measured by the MSCI World Index had a USD monthly gain of 4.14% (YTD 14.06%). In kwacha terms the index gained 4.60% (YTD +71.12%).

LOOKING AHEAD

- 2020 was an exceptional year for financial markets. The initial Covid-19 shock triggered a massive global selloff which was followed by a risk rally that extended to the year end. The U.S election, the trade deal agreement between the UK and the European Union as well as positive news on Covid-19 vaccines helped markets recover. For equity markets, the vaccine announcement in November led to one of the largest momentum changes in history. Hard-hit sectors such as energy, retail, airlines and financials rallied, while pandemic winners, such as online retail and health care, lagged. The prospect of a less confrontational presidency under Joe Biden, together with a divided Congress that may prevent both tax hikes and a tightening of regulation for technology and health care companies, pleased the markets. Moreover, US stock markets reacted positively to the election result, which contributed to the 12% climb in the fourth quarter. The MSCI Asia ex-Japan, MSCI Emerging Markets (EM) and US S&P 500 were the best performing, closing the year with returns of 25.4%, 18.7% and 18.4% respectively.
- On the monetary policy front, the European Central Bank (ECB) increased the size of its planned asset purchases by €500 billion to €1.85 trillion and extended the horizon over which it will make the purchases by nine months to the end of March 2022. In the UK, the Bank of England announced that it would expand its asset purchase facility by a further £150 billion. The US Federal Reserve also committed to purchase a minimum of $80 billion per month of Treasuries and agency mortgage-backed securities until the committee feels “substantial further progress” has been made towards its inflation and employment goals. With regard to fiscal policy, after months of negotiations, US law makers in Congress finally agreed on a $900 billion pandemic relief plan that will extend many of the Coronavirus Aid, Relief and Economic Security (CARES) act support measures, including renewing direct payments to households and more generous unemployment benefits. Consumer spending was potentially at risk without further government support, making this an important step for the US economy in building a fiscal bridge to the other side of the pandemic.
- Locally, the Ministry of Finance removed the 16% VAT on diesel and petroleum prices to cushion future increases in pump prices. The statement drew attention to the depreciation of the kwacha which necessitated an imperative need to mitigate the likely increase in pump prices. However, as the International Monetary Fund (IMF) is seen to oppose subsidies, the VAT removal could make future discussions more difficult and potentially impede discussions with the Eurobond holders who demanded an IMF deal as a condition to restructure the debt.

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

Aflife Team Office: (+260) 211 254841 | Fax: (+260) 211 253112; 74 Independence Avenue, P. O. Box 51331, Lusaka, Zambia; www.aflife.co.zm