OPERATING ENVIRONMENT – JANUARY 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 January:

OPERATING HIGHLIGHTS

- As we entered 2021, the local unit continued on its journey north of the 21.00 mark opening the month of January at ZMW21.15/USD1 and closing at ZMW21.39/USD translating into a monthly depreciation of 1.11%. Having lost half of its value against the US dollar in 2020, the **kwacha** sell-off persisted as Zambia's fragile fiscal dynamics continued to add downside pressure.
    - **Market liquidity** in the month decreased to an average of ZMW 1.98 billion from ZMW 3.29 billion.
    - The average **interbank rate** increased to 8.33% from 8.14%.
- Annual **inflation** accelerated for the fifth consecutive month to 21.5% from 19.2% in December, reaching its highest level since April 2016. Consumer prices were driven upward as a result of price movements in food items such as meats, oils and vegetables. Food inflation quickened to 25.6% from 20.2% while non-food inflation decreased for the second straight month to 16.7% from 18.1%.
- **Copper prices** on the London Metal Exchange (LME) opened at USD7,741.50/tonne and closed at USD7,877/tonne translating to a monthly appreciation of 1.75%. After nearing an almost 8 year high, copper prices held steady as low inventories and prospects for increased demand in 2021 were offset by a firmer US dollar and less than favorable data from top consumer China.
- January recorded a total of three price movements on Stanchart (-2.14%), Shoprite (-0.02%) and CEC (+0.91%). The **LuSE All Share Index** closed the month at 3,904.59 points, representing a month on month loss of -0.20% from December. The **LuSE Free Float Index** closed the month at 2,226.96 points, representing a month on month loss of -0.01%. Speaking to trading activity, the total number of trades registered on the LuSE was 188 down from 565 the previous month while the total turnover registered for the month decreased to ZMW4,173,795 from ZMW17,614,620.

AFRICAN LIFE FINANCIAL SERVICES (Z) LIMITED

- The **T-bill auctions** were held on the 14th and 28th of January:

Period (Days)	Amount Offered	Amount Bid	Amount Allocated	Yield Rate (%)	Prev Yield (%)	Change (%)
91	100.00	149.77	149.67	14.03	14.00	0.0314
182	220.00	35.40	35.40	16.03	16.03	-
273	330.00	150.58	150.58	20.00	19.45	0.5500
364	650.00	548.60	548.60	25.75	25.75	-
Total	**1,300.00**	**884.35**	**884.25**			

The first auction saw subscription and allocation rates of 168.92% while the second had a subscription rate of 68.03% and allocation rate of 68.02%, relative to the amount offered. At cost the first auction sold 137.96% while the second sold 57.03%. Upward yield movements were recorded across the board with the exception of the 364-day T-bill which remained unchanged at 25.75%. While the first auction saw the 273-day T-bill drop by 0.05 percentage points, the second auction saw the movement reverse with the tenor increasing by 0.55 percentage points. **February auctions**: 11th and 25th

- The **Government bond auction** held on 22nd January 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	77.79	73.36	31.00%-32.00%	33.00% - 33.00%	32.00	32.00	-
3	320.00	16.33	3.83	32.70% - 32.70%	34.00% - 34.00%	32.70	32.70	-
5	410.00	680.61	680.61	29.00% - 34.50%	None	34.50	33.00	1.50
7	135.00	3.880	3.88	30.10% - 30.10%	None	30.10	30.10	-
10	360.00	354.590	314.59	34.50% - 34.50%	35.99% - 35.99%	34.50	34.50	-
15	90.00	4.57	4.57	33.45%-33.70%	None	33.70	33.50	0.20
Total	**1,500.00**	**1,137.77**	**1,080.84**					

The auction had a subscription rate of 75.85% and allocation rate of 72.06%, relative to the amount offered. Bids ranging between 33.00% and 35.99% were rejected on the 2-year, 3-year and 10-year bonds. Yield movements were recorded on the 5-year and 15-year which went up by 1.5 and 0.2 percentage points, respectively. As previously seen, majority of investor interest was on the 5-year and 10-year which took up 91% of the bids. At cost, the auction sold 32.93%. **Next auction:** 19th February 2021

- **Global equities** as measured by the MSCI World Index had a USD monthly loss of 1.05%. in kwacha terms, the index gained 0.05%.

LOOKING AHEAD

- Global news in January reminded us of two important things. Firstly, governments and central banks are still fully committed to support economies with massive fiscal stimulus and easy financing conditions. The US Federal Open Market Committee (FOMC) and European Central Bank reiterated their commitment to maintain monetary policy support until inflation rises meaningfully toward targets. Secondly, the month showed us that Covid remains a risk. New highly infectious strains and the risk that existing vaccines might be less effective against some mutations remind us that the bridge to the post-Covid era might take longer to cross than expected, at least in some parts of the world.
- After a strong start to the month, global equity markets gave up their gains as the month came to a close. Developed market equities ended the month down 1%, while emerging market equities significantly outperformed their peers closing up 3.1%. Emerging market (EM) equities are expected to continue recording gains as they are seen as principal beneficiaries of a vaccine-led global economic upswing in 2021. Furthermore, the expectation of a flat to weak US dollar and more stable trade policy under the Biden administration favours 2020 top equity market performers - EM and Asia ex-Japan.
- The International Monetary Fund (IMF) raised its forecast for global economic growth in 2021 to 5.5%, 0.3 percentage points higher than the previous projection, reflecting expectations of a vaccine-powered strengthening of activity later in the year and additional policy support in the United States, Japan and a few other large economies. The global lender said the U.S. economy, the largest in the world, was expected to grow by 5.1% in 2021, an upward revision of 2 percentage points due to carryover from strong momentum in the second half of 2020 as well as the benefit accruing from approximately $900 billion in additional fiscal support approved in December. IMF chief economist Gita Gopinath said the outlook would most likely improve further if the U.S. Congress passes the $1.9 trillion relief package proposed by US President Joe Biden, forecasting a 5% boost over three years if approved. Emerging markets and developing markets are expected to grow by 6.3% in 2021, with China's economy expected to expand by 8.1% and South Africa's at 2.8%.
- Locally, the Zambian government and the IMF are expected to begin discussing a loan programme and debt relief plan from February 11 to March 3, 2021. The meeting comes in the wake of a request by the government last November for a formal program and a visit by the IMF team in December. The meeting is said to be held under the Extended Credit Facility window which provides financial assistance to countries with protracted balance of payments challenges, a situation which Zambia faces. The program discussions will centre on the governments objectives to attain fiscal and debt sustainability as well as key pillars in the country's economic recovery program.

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