

# MONTHLY FLASH REPORT

JUNE 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 June 2021:

## OPERATING HIGHLIGHTS

- In June, the **kwacha** opened at ZMW22.51/USD1 and closed at ZMW22.62/USD1 translating into a monthly depreciation of 0.52%. On a Year to Date (YTD) basis the local unit had a movement of -6.95%. The narrative for the local unit remains unchanged on the back of tight supply of hard currency amid high demand driven by debt service payments and imports.
  - Money **market liquidity** decreased to an average of ZMW 2.23 billion from an average of ZMW 2.98 billion, and the average **interbank rate** marginally reduced to an average of 8.59% from 8.61% in May.
- Annual **inflation** escalated further to 24.6% from 23.2% as result of upward price movements in food items. Annual food inflation rose to 31.2% from 28.5%, while non-food inflation remained unchanged at 17.1%. Month on month inflation was down 0.7 percentage points to 1.3%.
- Copper** prices on the London Metal Exchange (LME) opened at USD10,159.50/tonne and closed at USD9,385/tonne, translating into a monthly depreciation of 7.62% and YTD movement of 21.23%. Copper prices hit two month lows after the U.S. Federal Reserve brought forward its expectations for raising interest rates, sending the US dollar higher and sapping demand for metals. In addition, copper prices were weighed down by top consumer China's plans to release some of its reserves of industrial metals in an effort to curb rising producer price inflation.
- June recorded a total of eight price movements on the local stock exchange including Lafarge (134.60%), Zamsugar (59.77%), REIZ (40%), CEC Africa (11.76), AELZ (3.26%), Zambeef (2.68%), Stanchart (-6.72%) and Puma (-17.69%). The **LuSE All Share Index** closed the month at 4,611.79 points, representing a monthly gain of 8.60% and YTD movement of 17.88%. The **LuSE Free Float** Index closed the month at 2,688.64 points, representing a monthly gain of 9.80% and YTD movement of 19.82%. Total number of trades registered on the LuSE was 703 up from 460 in May while the total turnover registered for the month came down to ZMW10,294,679.00 from ZMW20,886,459.75.
- Global equities as measured by the MSCI World Index had a USD monthly gain of 1.40% (YTD +12.16%). In kwacha terms the index gained 1.92% (YTD +19.96%).

- The **T-bill auctions** were held on the 3<sup>rd</sup> and 17<sup>th</sup> of June:

Period (Days)	Amount Offered	Amount Bid	Amount Allocated	Yield Rate (%)	Prev Yield (%)	Change (%)
91	210.00	365.05	363.05	⇒ 13.99	↓ 13.99	⇒ -
182	240.00	129.02	128.98	⇒ 16.03	⇒ 16.03	⇒ -
273	250.00	348.32	348.32	⇒ 18.00	↓ 18.00	⇒ -
364	700.00	1,406.65	1,406.65	⇒ 25.50	↓ 25.50	⇒ -
<b>Total</b>	<b>1,400.00</b>	<b>2,249.04</b>	<b>2,247.00</b>			

While the second auction saw yields remain unchanged, the first auction saw downward yield movements across all tenors with the exception of the 182-day. Both auctions were greatly subscribed with the first having a subscription rate of 160.65% and allocation rate of 160.50%, and the second having that of 141.94% and 141.80%, relative to the amount offered. At cost the first auction sold 119.81% while the second sold 135.62% relative to the amount offered.

- The **Government bond** auction held on 25<sup>th</sup> June 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	371.88	371.64	26.00%-29.90%	32.00% - 32.00%	⇒ 29.90	↓ 29.90	⇒ -
3	320.00	352.86	351.35	27.00% - 30.50%	30.70% - 30.70%	↓ 30.50	↓ 30.70	↓ (0.20)
5	410.00	1,224.33	1,012.97	29.00% - 32.00%	32.50% - 34.50%	↓ 32.00	↓ 32.99	↓ (0.99)
7	135.00	208.200	208.200	29.00% - 30.10%	Nil	⇒ 30.10	⇒ 30.10	⇒ -
10	360.00	9.190	9.19	26.00% - 31.00%	Nil	⇒ 31.00	↓ 31.00	⇒ -
15	90.00	59.57	59.57	28.00%-32.90%	Nil	⇒ 32.90	↓ 32.90	⇒ -
<b>Total</b>	<b>1,500.00</b>	<b>2,226.03</b>	<b>2,012.92</b>					

The auction had a subscription rate of 148.40% and allocation rate of 134.19%, relative to the amount offered. Downward yield movements were recorded on the 3-year and 5-year which went down 20bps and 99bps, respectively. The auction saw bids rejected on the 2-year, 3-year and 5-year tenors. At cost, the auction sold 73.73% of the amount offered.

- The June **Purchasing Managers Index** (PMI) came in at 49.3 down from 49.7 in May. At the end of the second quarter, the new wave of COVID – 19 continued to weigh down on private sector activity.

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## LOOKING AHEAD

- In the second quarter, global equities rose as vaccination campaigns were successfully implemented in most developed countries, particularly in Europe. As such, governments in most developed markets continued to ease Covid-related restrictions and economic activity picked up. However, the re-opening of economies and the quick rebound in economic activity that has followed has fuelled inflation in some countries. In June, the US consumer price index increased by 5.4% year on year, keeping inflation at the highest rate in 13 years. While the US Federal Reserve continues to see the rise in inflation as transitory, it has become more hawkish, acknowledging that tapering of asset purchases which has aided in stimulating the ongoing US economic recovery, is being discussed. There has been a consensus view from central bank policymakers in developed markets that inflationary pressures will subside next year as economies get through a volatile pandemic reopening period, but whether or not this view will hold true remains unclear.
- Most emerging markets (EMs) continue to struggle with handling the pandemic. Unlike the advanced economies, the US and UK in particular, the vaccination rollout remains low. The silver lining is that countries are learning to live with the virus. Specifically, the economic impact of mobility restrictions appears to have fallen appreciably.
- Locally, inflation remains a key concern having reached a near 19-year high in June. The Bank of Zambia (BoZ) Governor, Christopher Mvunga, stated that the Monetary Policy Committee (MPC) may consider tightening its stance further should the inflation rate, which has been above the central bank's target range of 6% to 8% for more than 2 years, not come down. While the slow economic recovery was a key concern in the latest MPC decision, in the first quarter the economy expanded, for the first time in five quarters, by 0.7% which was above the International Monetary Fund forecast of 0.6% for the year. We expect the Bank of Zambia's monetary policy stance to remain fairly accommodative in the near term despite the rising inflationary pressures, due to the negative impact that the third wave of the pandemic is likely to have on economic activity in the third quarter.

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