

OPERATING ENVIRONMENT – MARCH 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 March:

OPERATING HIGHLIGHTS

- In March, the **kwacha** opened at ZMW21.75/USD1 and closed at ZMW22.08/USD1 translating into a monthly depreciation of 1.52% and a year to date (YTD) movement of 4.38%. The shortage of US Dollars amid rising expenditures on farming inputs coupled with deteriorating fiscal dynamics continued to weigh heavily on the local unit.
 - **Market liquidity** increased to an average of ZMW 3.67 billion from ZMW 1.49 billion while the average **interbank rate** increased to 8.58% from 8.46%.
- Annual **inflation** accelerated for the seventh consecutive month to 22.8% from 22.2% in February as a result of price movements in both food and non-food items. Food inflation quickened to 27.8% from 27.3% and non-food inflation increased to 17.0% from 16.2%. On a month on month basis, inflation was down 0.8 percentage points to 1.7% from 2.5% the previous month.
- **Copper prices** on the London Metal Exchange (LME) opened at USD9,172.50/tonne and closed at USD8,850.0/tonne translating into a monthly depreciation of 3.51% and YTD movement of 14.33%. Copper prices slipped as a result of a firm US dollar, a new wave of coronavirus infections and concern over slowing growth in top metals consumer China.
- March recorded a total of seven price movements on Zaffico (-8.02%), StanChart (-0.74%), Investrust (25%), Lafarge (3.38%), REIZ (25.58%), Zanaco (25%) and CEC Africa (30.77%). The **LuSE All Share Index** closed the month at 4,021.07 points, representing a monthly gain of 0.93% and YTD position of 2.78%. The **LuSE Free Float Index** closed the month at 2,290.47 points, representing a monthly gain of 0.28% and YTD position of 2.84%. Speaking to the trading activity, the total number of trades registered on the LuSE was 564 up from 449 while the total turnover was ZMW31,986,953 up from ZMW14,551,309 in the previous month.
- **Global equities** as measured by the MSCI World Index had a USD monthly gain of 3.11% (YTD 4.52%). In kwacha terms the index gained 4.67% (YTD 9.10%).

- The **T-bill auctions** were held on the 11th and 25th of March had the following results:

Period (Days)	Amount Offered	Amount Bid	Amount Allocated	Yield Rate (%)	Prev Yield (%)	Change (%)
91	200.00	59.45	59.45	⇒ 14.03	⇒ 14.03	-
182	220.00	103.80	103.80	⇒ 16.03	⇒ 16.03	-
273	230.00	52.39	52.39	⇒ 20.00	⇒ 20.00	-
364	650.00	752.22	752.22	⇒ 25.75	⇒ 25.75	-
Total	1,300.00	967.86	967.86			

March saw a total of 2 Treasury Bill auctions. The second auction saw subscription and allocation rates of 74.45% while the first auction had a subscription rate of 170.57% and allocation rate of 150.09%, relative to the amount offered. At cost the first auction sold 126.87% while the second sold 61.36%. Overall, as seen in the previous auctions, majority of investor interest was on the 364-day T-bill.

- The **Government bond auction** held on 19th March 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	733.58	733.58	29.50%-32.00%	None	⇒ 32.00	⇒ 32.00	-
3	320.00	289.65	249.65	30.00% - 32.70%	34.50% - 34.50%	⇒ 32.70	⇒ 32.70	-
5	410.00	638.66	638.57	29.89% - 34.50%	None	⇒ 34.50	⇒ 34.50	-
7	135.00	0.020	0.20	30.10% - 30.10%	None	⇒ 30.10	⇒ 30.10	-
10	360.00	816.100	816.01	33.00% - 34.50%	35.00% - 35.00%	⇒ 34.50	⇒ 34.50	-
15	90.00	406.98	406.98	33.00%-34.50%	None	↑ 34.50	↑ 34.00	0.50
Total	1,500.00	2,884.99	2,844.99					

The bond auction was held on 19th March. The auction had a subscription rate of 192.33% and allocation rate of 189.67%, relative to the amount offered. As seen in the previous auction, yield movements were recorded on the 15-year tenor which went up by 0.5 percentage points. Bids were rejected on the 3-year bond at 34.50% and on the 10-year bond at 35.00%. At cost, the auction sold 97.98%.

LOOKING AHEAD

- In the first quarter, a resurgence in new daily cases and fears over new variants prompted several economies to re-impose some degrees of lockdowns. While the pandemic situation has worsened in several European countries such as France and Germany, there has been a success in the vaccine rollout in the US and UK. Vaccine rollout, although uneven, is gaining momentum and government stimulus, particularly in the US, is likely to provide a major boost to economic activity. Prospects for sustainable growth still vary widely between countries and sectors making faster and more effective vaccination deployment across the world critical.
- The International Monetary Fund (IMF) turned more bullish in its April review to its World Economic Update where it raised growth projections for 2021 and 2022 by 0.8 and 0.2 percentage points to 6% and 4.4%, respectively reflecting additional fiscal support in a few large economies and the anticipated vaccine-powered recovery in the second half of the year. In an upside scenario if the production and distribution of doses accelerates, and is better co-ordinated around the world thus getting ahead of any mutations, it would allow containment measures to be more relaxed at a faster pace and global output to approach pre-pandemic levels. In a downward scenario, consumer spending and business confidence could be hit by vaccination programs that are not fast enough to cut infection rates or if new variants become more widespread and require changes to current vaccines.
- Locally, vaccine rollouts are expected to take place in April and May following cabinet approval in late March. So far, the country has accepted vaccines from Oxford/AstraZeneca as well as Johnson & Johnson through the COVAX facility and is expected to receive additional vaccines from other bilateral sources later in the year. Having received an initial 228,000 doses, vaccinations started on 14 April targeting frontline workers. However, limited availability and the recent concerns surrounding the possible side effects, there is a likelihood of further delays for wide scale local vaccinations.
- Private sector activity recorded significant improvements with the March Purchasing Managers Index (PMI) coming in at 49.7 from 47.7 in February. According to Markit Economics, Zambia's private sector neared stabilization on the back of improved demand, new orders and employment stability. The private sector is likely to remain weighed down by cost input inflation as currency weakness persists.

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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