OPERATING ENVIRONMENT – NOVEMBER 2020 FLASH REPORT

AFRICAN LIFE FINANCIAL SERVICES (Z) LIMITED

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 November:

OPERATING HIGHLIGHTS

- During the month of November, the **kwacha** lost 2.45% against the US dollar, opening at ZM20.56/USD1 and closing at ZMW21.06/USD1. On a year to date (YTD) basis the local unit closed the month with a movement of -49.34%. The kwacha remained on the back foot of the greenback as US dollar demand continued to exceed supply and deteriorating fiscal conditions continued to add downside pressure on the local unit.
    - **Market liquidity** decreased to an average of ZMW 3.46 billion from ZMW 4.01 billion.
    - The average **interbank rate** remained unchanged at 7.99%.
- Annual **inflation** accelerated for the third consecutive month to 17.4% from 16.0% the previous month. As seen in October, consumer prices were driven upward as a result of price movements in food items. Food inflation rose from 14.6% to 16.8% and non-food inflation increased to 18.2% from 17.7%. On a year to date basis, inflation came in higher at 15.6% as compared to 10.0% during the same period in 2019.
- **Copper prices** on the London Metal Exchange (LME) opened at USD6,694.5/tonne and closed at USD7,674.5/ tonne translating to a monthly appreciation of 14.64% and a year to date movement of 24.68%. Copper prices hit their highest level since 2013 following positive manufacturing data from Europe, the US and Asia as well as improved market sentiment from the news of a coronavirus vaccine.
- November recorded a total of 8 price movements with REIZ, SCZ, Zanaco, ZCCM-IH, and Zaffico recording negative movements and CEC, Lafarge and Zambia Sugar recording positive movements. The biggest loser for the month was REIZ which recorded a 56.67% loss. The **LuSE All Share Index** closed the month at 3,780.64 points, representing a month on month loss of 0.75% and YTD position of -11.35%. The **LuSE Free Float Index** closed the month at 2,139.77 points, representing a month on month loss of 0.82% and YTD position of -10.23%. Speaking to the trading activity, the total number of trades registered on the LuSE was 345 down from 1,335 the previous month while the total turnover registered for the month was ZMW10,259,380 down from ZMW 11,341,935.
- The **T-bill auctions** were held on the 5th and 19th of November:

Period (Days)	Amount Offered	Amount Bid	Amount Allocated	Yield Rate (%)	Prev Yield (%)	Change (%)
91	100.00	409.06	409.06	14.00	14.00	-
182	220.00	163.82	163.82	16.00	16.00	-
273	330.00	120.10	120.10	19.65	19.65	-
364	650.00	761.88	761.88	24.52	24.55	0.0273
Total	**1,300.00**	**1,454.86**	**1,454.86**			

Upward yield movements were recorded in the first auction which saw the 364-day T-bill go up by 0.03 percentage points to 24.55% while the second auction saw the movement reverse back to 24.52%. Both auctions had subscription rates of over 100%, with the first auction selling as high as 129.10% at cost. The second auction saw a slight reduction in participation levels with a subscription and allocation rate of 111.91% relative to the amount offered. In both auctions, majority of investor interest was on the 364-day T-bill. **December T-bill auction dates:** 3rd, 17th and 31st

- The **Government bond auction** held on 27th of November 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	284.28	284.28	31.00%-32.00%	None	32.00	32.00	-
3	320.00	322.72	322.70	32.20% - 32.70%	None	32.70	32.70	-
5	410.00	391.13	391.13	30.89% - 33.00%	None	33.00	33.00	-
7	135.00	4.140	4.14	30.10% - 30.10%	None	30.10	25.00	5.10
10	360.00	152.800	152.80	34.50% - 34.50%	None	34.50	33.00	1.50
15	90.00	16.53	16.53	33.50%-33.50%	None	33.50	33.50	-
Total	**1,500.00**	**1,171.60**	**1,171.58**					

The auction had a subscription and allocation rate of 78.11%, relative to the amount offered. Upward yield movements were recorded on the 7-year and 10-years bonds which went up by 5.1 and 1.5 percentage points, respectively. The auction accepted all bids with majority of the bids being on the 3-year and 5-year bonds. At cost, the auction sold ZMW 682.98 million translating to 45.53% of the amount offered. **Next auction date**: Thursday 24th December

- **Global equities** as measured by the MSCI World Index had a USD monthly gain of 12.66% (YTD 9.53%). In kwacha terms the index gained 15.40% (YTD +63.59%).

LOOKING AHEAD

- In the month of November, the topic dominating markets was Zambia becoming Africa's first sovereign to default since the coronavirus pandemic struck. Holders of Zambia's $3 billion Eurobonds rejected a request to suspend interest payments for a period of six months, stating that they were unable to consent to a debt standstill as they never received the information needed for an informed decision. A default was triggered on November 13th when Zambia missed a $42.5 million payment on $1 billion of Eurobonds maturing in 2024. According to the Ministry of Finance, the default was unavoidable because the country, which had received debt relief from China Development Bank in October, had to treat all creditors equally. Having a diverse range of creditors from pension funds in Europe to state-owned Chinese banks, the default makes a timely restructuring more challenging and caused some investors to unwind non-performing bonds, pummelling down Eurobond prices that are already below half of their face value.
- The Monetary Policy Committee held their quarterly meeting on 16-17 November and maintained the key rate at 8% to allow the impact of the previous cuts to filter through the economy. With inflation significantly above the central bank's target band of 6% to 8% for 19 consecutive months', raising the policy rate as an effort to control inflation would have been expected. However, doing so, in an already depressed economic situation, could have resulted in further contraction in economic growth which is currently forecasted at -4.2% for 2020 due to the limited fiscal space and negative impacts of the corona virus. Furthermore, reducing the rate as a means of supporting economic growth could have put additional pressure on the exchange rate. The kwacha has lost close to half of its value against the US dollar this year, making it the worst performing currency on the continent according to Bloomberg.
- The November Purchasing Managers Index (PMI) came in at 49.3 up from 48.9 in October. Despite being higher, the reading signalled a contraction in the private sector for 21 consecutive months. Nonetheless, as this is the third straight month that the index has risen, it could be perceived that the worst of the corona virus pandemic may be over.
- Globally, the announcement that the Pfizer/BioNTech, Moderna and AstraZeneca/Oxford vaccines had been shown to be effective in reducing symptomatic cases of Covid-19 drove a risk-on mood in markets and added fuel to the post-US election rally, eclipsing worries about the near-term economic outlook. With the first hurdles of efficacy and safety seemingly passed by all three, attention now turns to how quickly these vaccines can be approved, manufactured, distributed and administered on a mass scale. Global equity markets cheered the light at the end of the tunnel, with the year's biggest losers gaining the most in November: MSCI Europe ex-UK and FTSE All-Share indices returned 14.2% and 12.7%, respectively. The year-to-date top performers, MSCI Asia ex-Japan and the US S&P 500, still made impressive monthly gains of 8.0% and 11.0%.

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