

## OPERATING ENVIRONMENT – OCTOBER 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 October:

### OPERATING HIGHLIGHTS

- In October, the **kwacha** lost 2.07% against the US dollar opening at ZM20.14/USD1 and closing at ZMW20.56/USD1. On a year to date (YTD) the local unit closed the month with a movement of -41.75%. The kwacha remained on the back foot of the greenback as demand for foreign currency continued to outmatch supply. Furthermore, the deteriorating fiscal dynamics, high inflation and concerns of interest payment defaults continue to weigh on the local currency.
  - **Market liquidity** marginally decreased to an average of ZMW4.01 billion from ZMW4.18 billion.
  - The average **interbank rate** came down to 7.99% from 8.26%.
- Annual **inflation** accelerated for the second consecutive month to 16.0% from 15.7% in September. Consumer prices were driven upward as a result of an increase in food prices which rose by 0.6% to 14.6%. Non-food inflation remained unchanged at 17.7%. On a year to date basis, inflation came in higher at 13.1% as compared to 8.9% during the same period in 2019.
- **Copper prices** on the London Metal Exchange (LME) opened at USD6,610/tonne and closed at USD6,694.5/ tonne translating to a monthly appreciation of 1.28% and a year to date movement of 8.76%. The red metal recorded gains as sentiment was boosted by robust manufacturing data from China and the US. However, gains were limited by a firmer US dollar and uncertainty from the outcome of the US presidential election.
- October recorded a total of 5 price movements with REIZ, CEC and ZAMEFA recording negative movements while ZCCM-IH and AELZ recorded positive movements. The most significant movement was on REIZ which recorded a 40.2% loss. The **LuSE All Share Index** closed the month at 3,809.22 points, representing a month on month loss of 0.38% and YTD position of -10.68%. **The LuSE Free Float Index** closed the month at 2,157.51 points, representing a month on month loss of -0.88% and YTD position of -9.49%. Speaking to the trading activity, the total number of trades registered on the LuSE was 1335 up from 1,209 the previous month while the total turnover registered for the month was ZMW 11,341,935 down from ZMW 13,983,333.50.

- The **T-bill auctions** were held on the 8<sup>th</sup> and 22<sup>nd</sup> of October:

Period (Days)	Amount Offered	Amount Bid	Amount Allocated	Yield Rate (%)	Prev Yield (%)	Change (%)
91	100.00	120.56	120.56	⇒ 14.00	⇒ 14.00	⇒ -
182	220.00	1.34	1.34	⇒ 16.00	↓ 16.00	⇒ -
273	330.00	127.84	127.84	⇒ 19.65	⇒ 19.65	⇒ -
364	650.00	1,002.89	1,002.89	↑ 24.52	⇒ 24.50	↑ 0.0227
<b>Total</b>	<b>1,300.00</b>	<b>1,252.63</b>	<b>1,252.63</b>			

Downward yield movements were recorded in the first auction which saw the 182-day T-bill drop by 0.5 percentage points to 16.0% while the second auction saw upward movements on the 364-day which went up slightly by 0.02 percentage points to 24.52%. Both auctions had fairly low subscription rates, with the first auction selling as low as 35.25% at cost. The second auction saw an improvement in participation levels with a subscription and allocation rate of 96.36% relative to the amount offered. In both auctions, majority of investor interest was on the 364-day T-bill. **November T-bill auction dates:** 5<sup>th</sup> and 19<sup>th</sup>

- The **Government bond auction** held on 30<sup>th</sup> of October 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	615.40	615.40	28.00%-31.95%	None	⇒ 31.95	↑ 31.95	⇒ -
3	320.00	394.38	394.38	31.50% - 32.70%	None	⇒ 32.70	⇒ 32.70	⇒ -
5	410.00	564.06	564.06	27.50% - 33.00%	None	⇒ 33.00	⇒ 33.00	⇒ -
7	135.00	40.100	-	None	34.00% - 35.00%	⇒ 25.00	⇒ 25.00	⇒ -
10	360.00	99.990	99.990	31.50% - 33.00%	None	↑ 33.00	⇒ 31.50	↑ 1.50
15	90.00	27.91	27.91	31.59%-33.00%	None	↑ 33.00	⇒ 32.50	↑ 0.50
<b>Total</b>	<b>1,500.00</b>	<b>1,741.84</b>	<b>1,701.74</b>					

The auction had a subscription rate of 45.95% and allocation rate of 35.23% relative to the amount offered. Upward yield movements were recorded on the 2-year and 15-years bonds which increased by 0.05% and 0.5% respectively. All bids were accepted with the exception of the 10-year bond which rejected bids as high as 35%. As seen in previous auctions, majority of the bids were on the shorter end of the curve with the 2 -year being the most sought out. At cost, the auction sold ZMW 334.90 million translating to 22.33% of the amount offered. **Next auction date:** Friday 27<sup>th</sup> November

- **Global equities** as measured by the MSCI World Index had a USD monthly loss of 3.14% (YTD -2.78%). In kwacha terms the index lost 1.13% (YTD +41.75%).

## LOOKING AHEAD

- As we step into the final quarter of 2020, activity has been normalising faster than expected across the globe, albeit with renewed localised lockdowns due to the rising contain virus cases China which was the first country to suffer from the virus, saw the relaxing of the internal controls restricting movement between provinces that it had kept in place since the outbreak. Meanwhile, several major European governments including Spain, France, Germany and Italy were forced to adopt national level restrictions. The Spanish government's decision to extend its furlough scheme now means that all major economies in the euro area will benefit from ongoing labour market support. Furthermore, after much back and forth, the UK's furlough scheme that was due to end in October, has been extended as a means to provide fiscal support following the new lockdowns being implemented.
- Global equity markets have rallied sharply from the March lows driven by policy revolution and economic restart. The evidence of permanent damage to overall economies is limited so far, but the adjustment to a post-Covid world could be painful for some contact-sensitive sectors if mobility is curtailed for an extended period of time.
- Locally, the October Purchasing Managers Index (PMI) came in at 48.9 up from 46.6 in September. Despite being higher, the reading signalled a contraction in the private sector for 20 consecutive months. Nonetheless, as this is the second straight month that the index has risen, it could be perceived that the worst of the corona virus pandemic may be over. The Ministry of Finance held the much-anticipated meeting with holders of its 2022,2024 and 2027 Eurobonds on October 20<sup>th</sup>. However, due to the lack of quorum the meeting was adjourned to November 13<sup>th</sup>, which is coincidentally also the deadline to make the coupon payments that were missed in October 14<sup>th</sup>. In a bear case scenario, the coupon payments are missed thus triggering a default and giving bondholders the right to demand immediate repayment of the principal amount. Having previously stated the challenges of meeting obligations without interest payment deferral, the Ministry of Finance has indicated that it remains committed to finding a consensual and collaborative resolution to the fiscal challenges. Following the meeting postponement, credit rating agency S&P further lowered its long and short term foreign currency credit rating to "SD/SD" from "CCC-/C". The selective default (SD) rating indicates Zambia has built up a high level of supplier arrears which signals the possibilities of non-payment on domestic commercial financial obligations over the next 6 to 12 months. In a bull case scenario, the rating could be raised from "SD" if a restructuring deal with creditors was agreed on, the fiscal deficit reduced and adequate debt sustainability measures were put in place.

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](http://www.aflife.co.zm)*