

## OPERATING ENVIRONMENT – SEPTEMBER 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 September:

### OPERATING HIGHLIGHTS

- In September, the **kwacha** lost 3.40% against the US dollar opening at ZM19.48/USD1 and closing at ZMW20.14/USD1. On a year to date (YTD) basis, the local unit closed the month with a movement of -42.83%. The kwacha plunged to fresh lows following credit rating downgrades, negative sentiment arising from the increased possibility of debt service default and a shortage of US dollar supply.

  - **Market liquidity** in the month increased to an average of ZMW 4.18 billion from ZMW 3.79 billion.
  - The average **interbank rate** came down to 8.26% from 8.48% the previous month.
- Annual **inflation** accelerated for the first time in four months as a result of an increase in non-food items such as vehicles, furniture and housing. Consumer prices rose to 15.7% from 15.5% in August. While non-food inflation rose to 17.7% from 15.4%, food inflation decreased to 14% from 15.5%. On a year to date basis inflation came in at 11.2%, higher than 7.9% recorded during the same period in 2019.
- **Copper prices** on the London Metal Exchange (LME) opened at USD6,728/tonne and closed at USD6,610/ tonne translating into a monthly depreciation of 1.75% and a year to date movement of 7.38%. The price of the red metal reached a two year high of USD6,837/tonne on September 21<sup>st</sup> as recovery in China's industrial production underpinned prices. However, the gains were short lived as the dollar soared on stalled US fiscal stimulus talks and as a result, greenback priced assets became less appealing to holders of other currencies.
- September recorded a total of two price movements with REIZ and CEC both recording negative movements. The biggest loser for the month was REIZ which recorded a 24.85% downward movement. The **LuSE All Share Index** closed the month at 3,823.58 points, representing a month on month loss of -0.49% and YTD position of -10.34%. The **LuSE Free Float Index** closed the month at 2,176.66 points, representing a month on month loss of -0.91% and YTD position of -8.69%. Speaking to the trading activity, the total number of trades registered on the LuSE was 1,209 up from 151 the previous month while the total turnover registered for the month was ZMW 13,983,333.50 down from ZMW 47,743,738 in August.



- The **T-bill auctions** were held on the 10<sup>th</sup> and 24<sup>th</sup> of September:

Period (Days)	Amount Offered	Amount Bid	Amount Allocated	Yield Rate (%)	Prev Yield (%)	Change (%)
91	100.00	219.98	219.98	⇒ 14.00	⇒ 14.00	⇒ -
182	220.00	131.34	131.01	⇒ 16.50	↓ 16.50	⇒ -
273	330.00	161.52	161.52	⇒ 19.65	↓ 19.65	⇒ -
364	650.00	822.28	820.37	⇒ 24.50	⇒ 24.50	⇒ -
<b>Total</b>	<b>1,300.00</b>	<b>1,335.12</b>	<b>1,332.88</b>			

Downward yield movements were recorded in the first auction which saw the 182-day drop by 0.5% and the 273-day down by 0.35%. The first auction had a subscription and allocation rate of 199.95% relative to the amount offered. At cost, the auction sold 166.37% of the total amount on offer. The second auction had a subscription rate of 102.70% and allocation rate of 102.53%. At cost, the auction sold 87.21%. In both auctions, majority of investor interest was on the 364-day tenor. **October T-bill auction dates:** 8<sup>th</sup> and 22<sup>nd</sup>

- The **Government bond auction** held on 18<sup>th</sup> of September 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 116.12% and allocation rate of 113.45% relative to the amount offered. Yield movements were recorded on the 10-year and 15-years bonds which increased by 1.5% and 0.5% respectively, to 33.00%. All bids were accepted with the exception of the 7-year bond where the central bank rejected bids as high as 35%. 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 992.98 million. **Next auction date:** Friday 30<sup>th</sup> October

- **Global equities** as measured by the MSCI World Index had a USD monthly loss of 3.59% (YTD 0.37%). In kwacha terms the index lost 0.32% (YTD +43.37%).

## LOOKING AHEAD

- The third quarter provided hope that a recovery is under way following the easing of strict confinement measures as well as the reopening of businesses and schools, but uncertainty remains high and confidence is still fragile. In the US, the quarter started with a sharp rise in COVID-19 cases, but in late July the number declined sharply. In Europe and the UK, cases that were low for most part of the summer began to rise significantly mainly in Spain, France and the UK. The increase in cases has prompted concerns that as summer turns to autumn and temperatures begin to drop, hospitalisations and deaths could start to rise profoundly. Fiscal stimulus in the UK has started to fade with the newly announced job support scheme being less accommodative than the furlough scheme (ending in October); as a result, unemployment levels are likely to increase in the fourth quarter. On the monetary policy front, the big news during the quarter was the US Federal Reserve's shift to average inflation targeting, allowing inflation to run above target in the near term to compensate for periods of below-target inflation. Consequently, interest rates are likely to remain low for a longer period.
- The final quarter of 2020 is expected to be particularly eventful. By the end of the year, we should know the outcome of the US election, whether a no-deal Brexit would have been avoided, if US Congress passed more fiscal stimulus and hopefully some positive news on a vaccine.
- Locally, the 2021 budget was presented by the Finance Minister, Dr Bwalya Ng'andu, under the theme ***"Stimulate Economic Recovery and Build Resilience to Safeguard Livelihoods and Protect the Vulnerable"***. The budget painted a gloomy outlook of the country's fiscal trajectory, forecasting a rise in the fiscal deficit on a cash basis to 11.7% by the end of the year against the targeted 5.5%. While the expected fiscal shortfall of 9.3% of GDP in 2021 is lower than the 11.7% revised forecast for 2020, the deficit is irrefutably large given the government's plans to partially fund this through restructuring of existing debt as well as more external borrowing with 30.3% of the budget targeted to be financed from foreign loans and grants. Furthermore, 2020 expenditure was revised upward by 5.6% from ZMW 106 billion to ZMW 111.9 billion while the expenditure for 2021 is budgeted at ZMW 119.6 billion translating into 32.6% of GDP. With external debt stock increasing to US\$ 11.97 billion at the end of June 2020 from US\$ 11.48 billion in December 2019, the Ministry of Finance announced a consent solicitation to its Eurobond holders requesting a suspension of debt service payments for 6 months starting 14<sup>th</sup> October 2020. Shortly after the presentation made on the 29<sup>th</sup> September, the group of Zambian creditors rejected the request for interest payment relief. As a result, Zambia's Eurobonds extended significant losses trading at less than half their face value and the kwacha traded above the 20.00 mark against the dollar. A deal with creditors may take longer to reach than the speedy resolution outlined by the government. Mozambique, for instance, took approximately 3 years to restructure its Eurobonds after starting talks with investors in 2016.

We shall endeavour 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)*