

MONTHLY FLASH REPORT

DECEMBER 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 December 2021:

OPERATING HIGHLIGHTS

- The **kwacha** opened the month at ZMW17.80/USD1 and closed at ZMW16.67/USD1 translating into a monthly appreciation of 6.38% and year to date movement of +21.25%. The local unit ended 2021 as the second best performing currency as investors welcomed news about the government reaching a Staff Level Agreement with the International Monetary Fund (IMF) on a USD1.4 billion Extended Credit Facility.
 - Money **market liquidity** increased to an average of ZMW 4.60 billion from ZMW 2.85 billion and the average interbank rate increased to 8.97% from 8.51%.
- Annual **inflation** fell to a 14-month low of 16.4% at the end of the year from 19.3% in November due to the decrease in the price of food items. Annual food inflation fell from 25.4% to 19.9% while annual non-food inflation decreased slightly from 12.2% to 12.1%. On a month on month basis, inflation remained unchanged at 0.6%.
- Copper prices** on the London Metal Exchange (LME) opened at USD 9,600.00/tonne and closed at USD 9,691.50/tonne translating into a monthly appreciation of 0.95% and YTD movement of +25.19%. Copper prices ended the year on a high, boosted by a weaker US dollar and concerns over tight supply resulting from the expected strong demand from China.
- December recorded a total of nine price movements on Zanaco (45.04%), Zambia Sugar (45.0%), StanChart (36.36%), Lafarge (16.19%), BATZ (3.57%), AECI (1.28%), Zambrew (-3.57%), CCAF (-5.00%) and FQM (-5.91%). The **LuSE All Share Index** closed the month at 6,059.68 points, representing a monthly gain of 13.13% and YTD movement of 54.98%. The **LuSE Free Float Index** closed the month at 3,785.96 points, representing a gain of 12.15% and YTD movement of 69.99%. Speaking to the trading activity, the total number of trades registered on the LuSE was 1,152 down from 1,462 the previous month, while the total turnover registered for the month was ZMW 17,513,916 up from ZMW 13,969,885.
- Global equities** as measured by the MSCI World Index had USD monthly gain of 4.19% (YTD +20.14%). In kwacha terms the index lost 2.46% (YTD -5.39%).

- The **T-bill auctions** were held on the 2nd, 16th and 30th of December:

Period (Days)	Amount Offered	Amount Bid	Amount Allocated	Yield Rate (%)	Prev Yield (%)	Change (%)
91	210.00	184.99	184.99	9.5000	9.5000	-
182	240.00	147.79	147.79	9.6500	9.4999	0.1501
273	250.00	196.93	174.78	12.9999	10.0001	2.9998
364	700.00	1,462.90	1,056.46	15.0000	12.0000	3.0000
Total	1,400.00	1,992.61	1,564.02			

During the month, subscription rates in the Treasury Bill auctions gradually increased with the first auction having a subscription rate of 52.41%, the second 102.65% and the third 142.33%. Yields movements continued on an upward trend with the exception of the 91-day T-bill which remained unchanged. The most significant movement was recorded on the 364-day T-bill which increased by a total of 3 percentage points to 15.00%. The auction sizes have been recently revised upward by the central bank from K1.4 billion to K2.0 billion. **January auctions:** 13th and 27th

- The **Government bond** auction held 24th December 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	258.50	258.50	13.95%-19.95%	Nil	19.95	19.95	-
3	320.00	460.48	459.11	14.00%-20.95%	23.00%-23.00%	20.95	20.95	-
5	410.00	463.18	378.18	15.00%-23.50%	25.00%-25.00%	23.50	22.00	1.50
7	135.00	150.720	150.720	20.00%-24.49%	Nil	24.49	23.49	1.00
10	360.00	434.870	434.87	20.00%-25.74%	Nil	25.74	26.00	(0.26)
15	90.00	84.26	84.26	20.00%-25.80%	Nil	25.80	26.50	(0.70)
Total	1,500.00	1,852.01	1,765.64					

The auction subscription rate of 290.13% and allocation rate of 146.51%, relative to the amount offered. Downward yield movements were recorded across all tenors with the exception of the 15-year which remained unchanged at 26.00%. The most significant movement was recorded on the 7-year tenor which each fell by 144 basis points. At cost, the auction sold 100%. Auction sizes for 2022 have also been revised upwards to K2.6 billion from K1.5 billion. **Next auction:** 21 January, 2022

- The December **Purchasing Managers Index (PMI)** came at 51.5, marginally down from 51.8 in November. Despite the downward movement, the reading signalled an improvement in business conditions for the fourth consecutive month.

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LOOKING AHEAD

- The December Zambia Statistics Agency (ZSA) monthly report noted a positive preliminary third quarter Gross Domestic Product (GDP) of 3.5% driven largely by the Information & Communication as well as Construction sectors which had the highest contributions to growth of 1.2 and 1.0 percentage points respectively. In the 2022 National Budget presented by Honorable Dr Situmbeko Musokotwane in October 2021, the GDP projection for 2021 was 3.3% in 2021 against a contraction of 2.8% in 2020. Although other organizations such as the World Bank Group predict a lower GDP growth of 1.8% for 2021, the key drivers of growth are somewhat similar. While higher copper prices and improved rainfall conditions are expected to support growth in agriculture and electricity production which are key contributors to Zambia's manufacturing and service sectors, the risks of COVID-19 remain and continue to dampen activity predominately in the tourism, retail & wholesale sectors, which were the least contributors to growth in the third quarter (ZSA, 2022). Moreover, the outlook is dependent on the timely achievement of macroeconomic stability driven by progress on debt restructuring, fiscal consolidation efforts and the pace of COVID-19 vaccine rollouts.
- Following the staff level agreement between Zambian authorities and the International Monetary Fund (IMF) on an Extended Credit Facility (ECF) for approximately US\$ 1.4 billion, the Energy Regulation Board (ERB) increased fuel pump prices from K17.62/liter to K21.16/liter for petrol and from K15.59/liter to K20.15/liter for diesel. The decision to remove subsidies in areas such as energy is an early test of the Zambian governments commitment to implementing the reforms that the IMF consider to be crucial in restoring fiscal sustainability and macroeconomic stability. Though the decision to remove subsidies may have increased expectations for the government to conclude ongoing debt restructuring talks with external creditors by the end of the first half of 2022, there are concerns that a rise in fuel prices may cause prices of food and other basic household essentials, as well as transportation and key services to spiral. This may put upward pressure on keeping inflation, which may result in it continuing to trend in the double digits for the greater part of 2022.

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.