

MONTHLY FLASH REPORT

July 2022

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 July 2022:

OPERATING HIGHLIGHTS

- The **kwacha** opened the month at ZMW16.96/USD1 and closed at ZMW16.37/USD1 translating into a monthly appreciation of 3.50% and Year to Date (YTD) movement of +1.80%. The kwacha remained on the front foot for the second consecutive month as investor sentiment towards Zambia remained positive while the Bank of Zambia continued to consistently supply the market with hard currency to meet demand.
 - Money **market liquidity** decreased to an average of ZMW 1.60 billion from ZMW 2.03 billion while the average **interbank rate** remained unchanged at 9.00%.
- Annual **inflation** increased to 9.9% from 9.7% the previous month. The uptick in prices of goods and services was mainly attributed to upward movements in the price of non-food items. Annual food inflation was recorded at 12.0%, a 0.1 percentage point increase from the previous month, while non-food inflation went up by 0.3 percentage points to 7.2%.
- Copper prices** on the London Metal Exchange (LME) opened at USD 8,242.5/tonne and closed the month at USD 7,800.25/tonne translating into a monthly depreciation of 5.37% and year to date movement of -19.51%. Copper prices were hit by a strong US dollar, demand worries amid COVID-19 curbs in top consumer, as well as higher benchmark interest rates globally.
- July recorded a recorded a total of ten price movements on the Lusaka Securities Exchange (LuSE) including CEC Africa (29.09%), Pamodzi (16.67%), Zambeef (13.11%), Zanaco (4.47%), Natbrev (2.5%), Stanchart (1.45%), Puma (1.27%), CEC (0.93%), BATZ (0.53%), and Zambia Sugar (0.11%). The **LuSE All Share Index** closed the month at 6,889.66 points, representing a month on month gain of 0.52% and a YTD position of 13.70%. The **LuSE Free Float Index** closed the month at 4,455.14 representing a month on month gain of 0.94% and YTD position of 17.68%. Speaking to the trading activity, the total number of trades registered on the LuSE was 1,687 down from 1,882 the prior month while the total turnover registered for the month was ZMW5,499,247 down from ZMW211,379,288.
- Global equities** as measured by the MSCI World Index had a USD monthly gain of 7.86% (YTD -15.02%). In kwacha terms the index gained 4.09% (YTD -16.55%).

- The **T-bill auctions** were held on the 14th and 28th of July:

	Amount Offered	Amount Bid	Amount Allocated	Yield Rate (%)	Prev Yield (%)	Change (%)
91	300.00	184.57	180.30	➡ 9.1615	↓ 9.1615	➡ -
182	340.00	5.64	5.36	↓ 10.9999	↑ 11.4501	↔ 0.4502
273	360.00	2.97	2.78	➡ 12.7501	↑ 12.7501	➡ -
364	1,000.00	1,444.63	1,261.62	↑ 15.0000	↑ 14.4001	↗ 0.5999
Total	2,000.00	1,637.81	1,450.06			

The auctions had an average subscription rate of 66.0% and allocation rate of 63.19%. At cost, the auctions sold an average of 58.35% of the amount offered. Yield movements were recorded on the 182-day which went down by 45 basis points and the 364-day which went up by 60 bps. All other tenors remained unchanged. **August auctions:** 11th and 25th

The **Government bond** auction held on 22nd July had the following results:

	Amount Offered	Amount Bid	Amount Allocated	Range of Accepted Bids	Range of Rejected Bids	Yield Rate (%)	Prev Yield (%)	Change (%)
2	300.00	253.24	253.24	15.00% - 17.50%	Nil	➡ 17.50	➡ 17.50	➡ -
3	400.00	324.92	322.92	20.00% - 22.00%	24.00% - 24.00%	➡ 22.00	↑ 22.00	➡ -
5	650.00	208.80	208.80	17.00% - 24.00%	Nil	↑ 24.00	↑ 23.50	↑ 0.50
7	350.00	4.11	4.11	24.50% - 24.50%	Nil	➡ 24.50	➡ 24.50	➡ -
10	500.00	75.920	75.92	17.89% - 25.75%	Nil	↑ 25.75	➡ 25.25	↑ 0.50
15	400.00	119.26	118.36	25.25% - 27.00%	28.00% - 28.00%	➡ 27.00	➡ 27.00	➡ -
Total	2,600.00	986.25	983.35					

The auction was undersubscribed with a subscription rate of 37.93% and allocation rate of 37.82%, relative to the amount offered. At cost, the auction sold 27.11%. Upward yield movements were recorded on the 5-year and 10-year which both increased by 0.5 percentage points. All other tenors were unchanged. **Next auction:** 19th August, 2022

- The July **Purchasing Managers Index (PMI)** came in at 50.5 up from 49.9 in June. The private sector recorded growth in the month amid signs of rising demand which led to an improvement in new orders and business activity. Furthermore, employment rose for the fourth consecutive month as companies took on more staff members and expanded purchasing activity.

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LOOKING AHEAD

- A topic dominating markets in the month of July was Zambia's Official Creditor Committee (OCC) formed by the country's bilateral creditors, co-chaired by China and France, meeting virtually on July 18th in the presence of International Monetary Fund (IMF) and World Bank staff. This was followed by a statement issued on July 30th where the committee assured their support of the IMF program and committed to negotiate on the debt restructuring terms. While the statement did not provide details of the terms of the debt restructuring, the news was nonetheless positively received by investors and traders and reinforced expectations that the financial assurances granted by the OCC would be sufficient to unlock the first tranche of IMF funding in the coming months
- Zambia's request to restructure its debt was the first real test of the "Common Framework" created in late 2020 by the Group of 20 (G20) countries together with the Paris Club, to support Low Income Countries with unsustainable debt. According to the World Bank, China is one of the world's largest single creditor nations. Given that Zambia was the first African country to default on its debt in the COVID-19 pandemic era, and is also the first country to have China co-chair its debt committee, the outcome of the debt negotiations will provide a case study for understanding how China could treat restructuring in other African countries.
- Elsewhere, global markets staged a recovery as investors began to focus on the prospects of interest rate hikes at a slower pace, given the signs of a slowing global economy. US equities rebounded, with growth stocks being the main beneficiaries while emerging market equities lagged amid weakness in China. As anticipated, the US Federal Reserve (Fed) hiked interest rates by 0.75 percentage points while the European Central Bank (ECB) raised interest rates by a larger-than-expected 0.5 percentage points, ending a streak of negative rates. Despite signs of easing annual inflation in the US, the Fed is unlikely to shift its focus from inflation to economic growth until there are clear signs of headline inflation stabilizing.

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.