

MONTHLY FLASH REPORT

OCTOBER 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 October 2022:

OPERATING HIGHLIGHTS

- The **kwacha** opened the month at ZMW15.77/USD1 and closed at ZMW16.17/USD1 translating into a monthly depreciation of 2.55% and Year to Date (YTD) movement of +2.98%. The local unit closed on the back foot as market demand for hard currency remained higher than supply.
 - Money **market liquidity** increased to an average of ZMW 2.47 billion from ZMW 2.40 billion while the average **interbank rate** decreased to 8.98% from 9.00% the previous month.
- Annual **inflation** decreased by 0.2 percentage points to 9.7%. The decrease was attributed to downward price movements in non-food items. Annual food inflation rose to 12.2% from 12.1% in September, while annual non-food inflation fell to 6.5% from 7.2% the previous month.
- **Copper prices** on the London Metal Exchange (LME) opened at USD 7,646.50/tonne and closed the month at USD 7,522.50/tonne translating into a monthly depreciation of 1.62% and year to date movement of -22.38%. Prices of the red metal continued to be negatively impacted by a stronger US dollar weighing on demand of US dollar denominated assets, as well as the fears of a global slowdown sparking a risk off sentiment among traders and investors.
- October recorded a total of five price movements on counters such as Airtel (0.23%), Bata (-0.39%), Pamodzi (-1.39%), CEC Africa (-1.41) and Zanaco (-11.60%). The **LuSE All Share Index** closed the month at 7,230.22 points, representing a month on month loss of -1.53% from September and YTD position of 19.32%. The **LuSE Free Float Index** closed the month at 4,722.43 representing a month on month loss of -1.66% and YTD position of 24.74%. Speaking to the trading activity, the total number of trades registered on the LuSE was 1,529 down from 2,108 the prior month, while the total turnover registered for the month was ZMW10,462,936 down from ZMW44,372,677.
- **Global equities** as measured by the MSCI World Index had a USD monthly gain of 7.11% (YTD -21.17%). In kwacha terms the index gained 10.09% (YTD -30.37%).

- The **T-bill auctions** were held on the 6th and 20th of October:

	Amount Offered	Amount Bid	Amount Allocated	Yield Rate (%)	Prev Yield (%)	Change (%)
91	300.00	36.79	36.69	⇒ 10.0000	↑ 10.0000	⇒ -
182	340.00	155.70	155.61	⇒ 10.0000	⇒ 10.0000	⇒ -
273	360.00	211.89	206.67	⇒ 12.9999	↑ 12.9999	⇒ -
364	1,000.00	840.10	828.53	⇒ 15.0000	⇒ 15.0000	⇒ -
Total	2,000.00	1,244.48	1,227.50			

The auctions had an average subscription and allocation rate of 81.06%, in cost terms. Upward yield movements were recorded on the 91-day and 273-day which rose by 0.06 and 0.30 percentage points respectively. **November auctions:** 3rd and 20th

- The **Government bond** auction held on 28th October 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	231.63	228.92	15.00% - 17.50%	18.00% - 18.00%	⇒ 17.50	⇒ 17.50	⇒ -
3	400.00	284.06	280.17	20.00% - 22.00%	Nil	⇒ 22.00	⇒ 22.00	⇒ -
5	650.00	181.83	174.57	20.00% - 24.00%	Nil	⇒ 24.00	⇒ 24.00	⇒ -
7	350.00	21.21	19.32	23.00% - 25.40%	Nil	↑ 25.40	⇒ 24.49	↑ 0.91
10	500.00	73.38	67.50	25.82% - 27.64%	27.70% - 27.95%	⇒ 27.64	↓ 27.64	⇒ -
15	400.00	112.41	101.28	23.00% - 27.75%	Nil	⇒ 27.75	⇒ 27.75	⇒ -
Total	2,600.00	904.54	871.76					

The auction had a subscription rate of 34.79% and allocation rate of 33.53%, in cost terms. On a Year to Date basis, subscriptions averaged 78.97% of the amount offered. An upward yield movement was recorded on the 7-year which rose by 0.91 percentage points. **Next auction:** 25th November, 2022

- The October **Purchasing Managers Index (PMI)** came in at 49.0 down from 50.5 in September, signaling a marginal contraction in business conditions. Business conditions deteriorated mainly due to a significant reduction in business activity which resulted in a notable drop in output.

Tel: +260) 211 254841 | **Fax:** (+260) 211 253112;

Address: 74 Independence Avenue, P. O. Box 51331, Lusaka, Zambia;

Website: www.aflife.co.zm **Email:** mpile@aflife.co.zm

LOOKING AHEAD

- As we stepped into the final quarter of 2022, global equity markets reversed some of the losses that have accrued since the beginning of the year. US equity benchmarks posted gains with the S&P 500 Index posting a gain of 8.1% while the Dow Jones Industrial Average Index had a remarkable gain of 14.1%. The gains came in spite of the US Federal Reserve (“The Fed”) asserting that tighter monetary policy is still needed to contain elevated inflation, although there is room for less aggressive rate hikes as we draw closer to the end of the year. The October US consumer prices report showed that annual inflation increased 7.7% after rising 8.2% in September, the first time since February that the annual increase in CPI was below 8%, suggesting that the Fed’s interest rate hikes are beginning to have the intended effect. The lower than expected inflation data is likely to result in a 50bps hike in the next meeting as opposed to the 75bps seen in the past 4 consecutive meetings.
- On the local front, the Bank of Zambia’s Monetary Policy Committee (MPC) is set to hold their quarterly meetings 14th-15th November followed by a press briefing on the 16th. The policy rate has been maintained at 9% for the last 3 consecutive meetings on the back of the sharp deceleration in inflation. While sustained implementation of fiscal consolidation and structural reform measures, supported by the Extended Credit Facility (ECF), are key factors that are expected to contribute to lower inflation, upside risks such as elevated energy prices, adverse weather conditions, tight global financial conditions and supply chain disruptions remain. With inflation expected to decline towards the 6-8% central bank target range by Q1 2024, the MPC is likely to leave the benchmark policy rate unchanged for the foreseeable future.

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