

MONTHLY FLASH REPORT

JANUARY 2023

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 January 2023:

OPERATING HIGHLIGHTS

- The **kwacha** opened the month at ZMW18.07/USD1 and closed at ZMW19.03/USD1, translating into a monthly depreciation of 5.31%. Despite the weakening of the US dollar against a basket of major currencies in January, the kwacha broadly depreciated over the month on the back of heightened dollar demand which outweighed supply.
 - Money **market liquidity** increased to an average of ZMW 2.11 billion from ZMW 1.95 billion and the average **interbank rate** rose to 9.00% from 8.99%.
- Annual **inflation** fell by 0.5 percentage points to 9.4%. The decrease was attributed to the slowdown of price increases in both food and non-food items. Annual food inflation fell from 11.9% to 11.6%, while annual non-food inflation fell from 7.3% to 6.4%. On a month on month basis, inflation increased by 1.3 percentage points to 2.1%.
- Copper prices** on the London Metal Exchange (LME) opened at USD 8,386.5/tonne and closed the month at USD 9,074.25/tonne, translating into a monthly appreciation of 8.20%. The price of the red metal rose above \$9,000/tonne for the first time since June 2022 on the hopes that Chinese demand would rebound after China removed its COVID-19 restrictions.
- January recorded a total of six price movements on Airtel (4.35%), Zanaco (-0.31%), Zamefa (-1.88%), CEC Africa (-4.48%), Standard Chartered (-24.24%) and REIZ (-24.54). The **LuSE All Share Index** closed the month at 7,217.75 points, representing a month on month loss of -1.64% from December and YTD position of -1.64%. The **LuSE Free Float Index** closed the month at 4,763.37 representing a month on month loss of -1.04% and YTD position of -1.04%. Speaking to the trading activity, the total number of trades registered on the LuSE was 1,625 up from 1,616 the prior month while the total turnover registered for the month was ZMW57,133,046 down from ZMW86,503,540.
- Global equities** as measured by the MSCI World Index had a USD monthly gain of 7.00% (YTD -19.46%). In kwacha terms the index gained 12.69%.

- The **T-bill auctions** were held on the 12th and 26th of January:

	Amount Offered	Amount Bid	Amount Allocated	Yield Rate (%)	Prev Yield (%)	Change (%)
91	300.00	132.27	127.77	↓ 9.7499	⇒ 10.0000	↘ 0.2501
182	340.00	450.28	450.14	⇒ 11.5001	↑ 11.5001	⇒ -
273	360.00	159.11	159.08	↓ 12.0000	⇒ 12.9999	↘ 0.9999
364	1,000.00	1,330.36	1,323.18	↓ 14.9899	⇒ 15.0000	↘ 0.0101
Total	2,000.00	2,072.02	2,060.17			

The auctions had an average subscription rate of 124.47% and average allocation rate of 101.50%, in cost terms. Downward movements were recorded across the board with the exception of the 182-day which remained unchanged at 11.50%. The most significant movement was recorded on the 273-day which fell by 99.99 basis points. **February auctions:** 9th and 23rd

- The **Government bond** auction held on 20th January 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	666.58	662.17	17.00% - 17.49999%	22.00% - 22.00%	↓ 17.4999	⇒ 17.5000	↓ (0.0001)
3	400.00	593.70	587.56	20.00% - 22.00%	Nil	⇒ 22.0000	⇒ 22.0000	⇒ -
5	650.00	406.54	340.97	22.00% - 24.00%	25.00% - 26.50%	⇒ 24.0000	⇒ 24.0000	⇒ -
7	350.00	59.24	13.72	21.89% - 25.40%	26.40% - 26.40%	⇒ 25.4000	⇒ 25.4000	⇒ -
10	500.00	937.85	926.27	22.00% - 27.75%	28.00% - 28.00%	↑ 27.7500	⇒ 27.6400	↑ 0.1100
15	400.00	132.99	123.71	24.00% - 27.75%	Nil	⇒ 27.7500	⇒ 27.7500	⇒ -
Total	2,600.00	2,795.90	2,654.40					

The auction had a subscription rate of 107.53% and allocation rate of 102.09%, in cost terms. Yields movements were recorded on the 2-year which fell by 0.0001 percentage points (pp) and the 10-year which rose by 0.11 pp. **Q1 2023 auction dates:** 17th February and 23rd March

- The January **Purchasing Managers Index (PMI)** reading came in at 50.6 up from 48.3 in December, signaling an improvement in business conditions for the first time in 4 months. The reading reflected renewed expansions in output, new orders, employment and stock purchases.

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LOOKING AHEAD

- Global equity markets started 2023 on a strong footing with China's reopening, inflation data in the United States moderating, a softening US dollar, easing of supply chain restraints, declining energy prices and strong gains across risk assets. Despite the US Federal Reserve's commitment to continue hiking the benchmark monetary policy rate toward five percent, US fixed income markets drove yields lower. As a result of lower bond yields, equity markets rallied on the back of improved investor sentiment compared to what was seen for most of last year. The Nasdaq Composite Index recorded a total return of 10.7%, the S&P 500 Index gained 6.3% and the Dow Jones Industrial Average added 2.9%. Despite the persistent risks to the global inflation outlook and concerns about tighter monetary policy, the month of January saw significant gains for offshore equities as well as fixed income assets. While inflation has moderated from multi-decade highs in many countries, the world economy is on a slower growth trajectory and central banks are maintaining efforts to prevent above-target inflation becoming entrenched. The ongoing monetary policy tightening cycle by major central banks remains the major factor behind a weaker global economic outlook for 2023. Nonetheless recent trends, such as evidence of inflation peaking in various major economies, have been encouraging. As a result, central banks such as the US Federal Reserve have raised interest rates in smaller increments, thus suggesting that policy rates may be nearing the terminal point.
- Over the past year, the economies of U.S and Canada have shown some resilience while Europe appears to have a higher risk of recession due to the continued negative effect of the war in Ukraine on energy prices. To date, however, the European region has avoided an economic downturn with fiscal support cushioning the impact of higher utility bills. Elsewhere, China's reopening is expected to boost domestic growth, which is expected to result in positive spill overs on the global economy.
- Locally, the Monetary Policy Committee (MPC) of the Bank of Zambia (Boz) raised the policy rate by 25 basis points to 9.25% at their first meeting in 2023, citing expectations that inflation will remain above the 6%-8% target range. The rate hike was somewhat expected following the upward revision of the Statutory Reserve Ratio (SRR) to 11.5% from 9% as well as the sharp deterioration in the near term outlook for the local currency since the fourth quarter of last year. The Bank of Zambia Governor further added that the decision was based on mounting inflationary pressures from the weakening kwacha, expected increases in electricity tariffs, possible reduction in maize production and continued tightening in global financial conditions.

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.