MONTHLY FLASH REPORT

FEBRUARY 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 February 2023:

OPERATING HIGHLIGHTS

- The **kwacha** opened the month at ZMW19.03/USD1 and closed at ZMW19.85/USD1, translating into a monthly depreciation of 4.29% and a Year to Date (YTD) movement of -9.83%. The bearish bias on the Zambian kwacha remained in place amid heightened foreign currency demand and limited supply.
  - Money **market liquidity** decreased to an average of ZMW 1.48 billion from ZMW 2.11 billion and the average **interbank rate** remained unchanged at 9.00%.
- Annual **inflation** marginally rose to 9.6% from 9.4% the previous month. The increase was attributed to the uptick in price increases of non-food items. While annual food inflation remained unchanged at 11.6%, annual non-food inflation rose to 6.9% from 6.4%. On a month on month basis, inflation decreased by 0.2 percentage points (pp) to 1.9%.
- **Copper prices** on the London Metal Exchange (LME) opened at USD 9,074.75/tonne and closed the month at USD 8,843.5/tonne, translating into a monthly depreciation of 2.55% and a YTD movement of +5.45%. Copper prices slipped on the back of a firmer US dollar coupled with demand uncertainties from top consumer China
- February recorded a total of nine price movements on Puma (15.63%), Standard Chartered (10.00%), Airtel (0.83%), Zaffico (0.80%), BATZ (0.53%), Zambeef (-0.38%), CEC (-0.53%), CEC Africa (-1.56%) and Zanaco (-3.77%). The **LuSE All Share Index** closed the month at 7,249.62 points, representing a monthly gain of 0.44% and YTD movement of -1.20%. The **LuSE Free Float Index** closed the month at 4,773.02 points representing a monthly gain of 0.20% and YTD movement of -0.84%. Speaking to the trading activity, the total number of trades registered on the LuSE was down to 1,617 from 1,625 the prior month, and the total turnover registered for the month was ZMW17,754,711.03 down from ZMW57,133,046
- **Global equities** as measured by the MSCI World Index had a USD monthly loss of 2.53% and a YTD movement of +4.30%. In kwacha terms the index gained 2.54% (YTD +15.55%).
- The **T-bill auctions** were held on the 9th and 23rd February:

	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. The month ended with downward movements 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. **March auctions:** 9th and 23rd

- The **Government bond** auction held on 23rd February 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	310.65	265.92	17.00% - 18.00%	19.00% - 25.00%	18.0000	17.4999	0.5001
3	400.00	195.06	191.25	20.00% - 22.00%	Nil	22.0000	22.0000	-
5	650.00	54.99	48.81	20.00% - 24.00%	25.00% - 25.00%	24.0000	24.0000	-
7	350.00	8.09	5.80	25.00% - 25.40%	Nil	25.4000	25.4000	-
10	500.00	228.28	91.65	23.00% - 27.75%	28.25% - 29.00%	27.7500	27.7500	-
15	400.00	57.73	50.47	22.00% - 27.75%	Nil	27.7500	27.7500	-
Total	**2,600.00**	**854.80**	**653.90**					

The auction had a subscription rate of 32.88% and allocation rate of 25.15%, in cost terms. Approximately 60% of the bids were on the 2-year and 3-year tenors. A yield movement was recorded on the 2 year which rose by 0.5 percentage points to 18.00%. **Next auction:** 23rd March

- The February **Purchasing Managers Index (PMI)** reading came in at 51.3 up from 50.6 in January, signaling an expansion in private sector activity for the second consecutive month. The reading reflected sharper increases in output and new orders as well as an increase in purchasing activity.

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LOOKING AHEAD

- A key theme of 2022 was the contractionary monetary policy stances taken on by major central banks such as the US Federal Reserve ("the Fed"), Bank of England (BoE), and the European Central Bank (ECB), in efforts to curb the historically high inflation in developed economies. With interest rates having been kept at artificially low levels in 2020 and 2021, it came as no surprise that the rapid interest rate hikes in major economies over the past year resulted in significant losses for offshore equities as well as bonds, whose prices and interest rates have an inverse relationship. This is evident in the recent failure and collapse of two American banks. One of these banks which previously traded as Silicon Valley Bank (SVB), a regional bank in the US, had invested excess cash in long-dated US Treasuries (which are considered as risk-free assets) at a time when interest rates were low. Unfortunately, these investments lost significant value when the Fed raised rates from 0% to 4.75%. Although the US government and the Fed stepped in to protect SVB's depositors, fears of systemic risk in the banking sector have left investors wondering whether major central banks may have to soften their monetary policy stances in the coming months in order to maintain global financial stability.
- While many central banks have indicated their intentions to continue raising rates until inflation targets are met, the tighter liquidity environment has intensified fears of a possible global recession. Tighter liquidity conditions and the current "risk-off" capital market environment may have implications for the Zambian economy in the near term, as foreign investors are less likely to have high demand for local government bonds and other risk assets. This suggests that the kwacha may continue to trade weaker against the US dollar in the coming months, especially if the ongoing debt restructuring talks are not finalized by the end of the first quarter as has been communicated by the Ministry of Finance. The Bank of Zambia's Monetary Policy Committee (MPC) sought to curb the depreciation of the local currency by increasing the benchmark Monetary Policy Rate (MPR) and Statutory Reserve Ratio to 9.25% and 11.50% respectively. Expectations are that the Bank of Zambia will remain steadfast in its resolve to maintain exchange rate stability, which may mean another increase in the MPR at the next MPC meeting to be held in May, if the inflation outlook deteriorates further and domestic economic conditions remain unfavourable.

KEY PORTFOLIO IMPLICATIONS

- Following the strong rally in global equities in January on the back of speculation that the Fed would cut interest rates by the end of the year, February painted a different picture with negative performance recorded across all sectors with the exception of the technology sector which climbed by 0.4% in US dollar terms. Continued volatility is expected in global markets due to the ongoing uncertainty about the trajectory of inflation and interest rates in developed economies. We therefore maintain caution towards the offshore asset class until major central banks become less hawkish and until inflation in the US and Europe reduces significantly towards the 2% target.
- Following the recent hike in the MPR by the Bank of Zambia, local equities may come under pressure in the near term due to increased borrowing costs and reduced consumer spending. However, companies with US dollar denominated sales may see an increase in revenues on the back of the kwacha weakness, ceteris paribus.
- The recent increase in the policy rate coupled with tighter liquidity conditions are likely to push up interest rates on the domestic Treasury bill and bond markets. Money market instruments are therefore likely to provide improved returns while government bonds may record some mark-to-market losses. Demand for government securities is likely to remain supressed amid continued uncertainties around the debt restructuring talks between the government and external creditors.
- The medium to long term outlook for properties remains positive supported by expectations of improved economic growth and fiscal consolidation. However, key risks that may affect the commercial real estate sector in particular in the near term include the weakness of the local currency, as well as the rising cost of doing business.

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.

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