AFRICAN LIFE FINANCIAL SERVICES (Z) LIMITED

MONTHLY FLASH REPORT

APRIL 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 April 2023:

OPERATING HIGHLIGHTS

- The **kwacha** recorded a stellar performance in April, opening at ZMW 21.31/USD1 and closing at ZMW17.73/USD1. The monthly gain of 16.77% was mainly driven by the increased supply of hard currency from corporate tax conversions as well as improved sentiment driven by hopes of nearing an end to the debt restructuring negotiations between the Zambian government and external creditors. On a year to date (YTD) basis, the local unit closed with a movement of +1.88%.
  - Money **market liquidity** fell to an average of ZMW 1.85 billion from ZMW 2.02 billion and the average **interbank rate** remained unchanged at 9.00%.
- Annual **inflation** rose for the third consecutive month to 10.2% from 9.9% the previous month. The increase was attributed to the uptick in upward price movements of non-food items relative to the prior year. While annual food inflation fell from 11.8% to 11.6%, annual non-food inflation rose to 8.3% from 7.3% the previous month. On a month on month basis, inflation decreased by 0.1 percentage points to 0.9%.
- **Copper prices** on the London Metal Exchange (LME) opened at USD 8,934.0/tonne and closed at USD 8,570.00/tonne, translating into a monthly depreciation of 4.02% and a YTD movement of +2.19%. Despite the relatively weaker US dollar and the low supplies in the LME warehouses, the price of the red metal slipped on the back of rising concerns of weakening growth prospects for developed economies.
- April recorded a total of eight price movements on the local stock exchange including Zanaco (11.29%), Puma (8.94%), Chilanga (7.47%), Bata (0.78%), Zamefa (0.63%), Zambia Sugar (0.17%), BATZ (-2.63%) and CEC Africa (-28.57%). The **LuSE All Share Index** closed the month at 8,018.80 points, representing a month on month gain of 2.31% and YTD movement of +9.28%. The **LuSE Free Float Index** closed the month at 5,227.10 points representing a month on month gain of 2.36% and YTD movement of +8.59%. Speaking to the trading activity, the total number of trades registered on the LuSE was 990 down from 1,622 the prior month while the total turnover registered for the month was ZMW22,029,145.09 down from ZMW581,299,030.
- **Global equities** as measured by the MSCI World Index had a USD monthly gain of 1.59% (YTD +8.96%). In kwacha terms the index lost 15.44% for the month (YTD +6.91%).
- The **T-bill auctions** were held on the 6th and 20th of April:

	Amount Offered	Amount Bid	Amount Allocated	Yield Rate (%)	Prev Yield (%)	Change (%)
91	300.00	14.59	14.47	10.0101	10.0034	0.0067
182	340.00	8.26	8.05	11.5001	11.50	-
273	360.00	275.29	275.29	13.5000	13.50	-
364	1,000.00	536.35	535.56	15.7500	15.75	-
Total	**2,000.00**	**834.49**	**833.37**			

The auctions had an average bid rate of 41.70% and average allocation rate of 62.71%, in cost terms. While all other tenors remained unchanged, an upward yield movement was recorded on the 91-day which rose by 0.67 basis points to 10.01%. **May auctions:** 4th and 18th

- The **Government bond** auction held on 27th April 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	37.58	36.48	16.00% - 18.00%	Nil	18.0000	18.0000	-
3	400.00	85.34	82.80	20.00% - 22.00%	Nil	22.0000	22.0000	-
5	650.00	174.32	169.49	20.00% - 24.00%	Nil	24.0000	24.0000	-
7	350.00	76.43	63.65	24.00% - 25.49%	27.00% - 27.00%	25.4900	25.4000	0.0900
10	500.00	192.94	183.91	25.00% - 27.75%	Nil	27.7500	27.7500	-
15	400.00	112.95	99.67	26.50% - 27.75%	28.00% - 28.00%	27.7500	27.7500	-
Total	**2,600.00**	**679.56**	**636.00**					

The auction had a subscription rate of 26.14% and allocation rate of 24.46%, in cost terms. A yield movement was recorded on the 7-year which rose by 9 basis points to 25.49%. Majority of the bids were on the 5-year and 10-year tenors which cumulatively housed more than half the total bids. On a year to date basis, 45.17% of the total amount offered was sold. **Q2 Auction Dates:** 26th May and 23rd June

- The April **Purchasing Managers Index (PMI)** reading came in at 48.7 up from 46.9 in March, signaling a contraction in business activity for the second consecutive month. While tight liquidity conditions continued to negatively impact output and new orders, the positive performance of the kwacha aided in relieving price pressures and softened the downturn in business conditions.

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

- A key issue that remained topical among investors in the month of April was the debt restructuring negotiations between local authorities and external creditors. Following the visit from the International Monetary Fund (IMF) in early April, a staff level agreement was reached on economic policies to conclude the first review of the 38-month Extended Credit Facility (ECF) supported program. In order for Zambia to access the second tranche ($188 million) of the $1.3 billion, a Memorandum of Understanding (MoU) must be signed between Zambian authorities and external creditors. Thereafter, approvals are required from the IMF's Management and the Executive Board. With the next review scheduled in three months, the IMF have continued to strongly urge official creditors to move forward and agree on an appropriate debt treatment in line with the financing assurances they provided in July 2022.
- At the end of 2022 Zambia's external debt amounted to $18.6 billion of which nearly $5.7 billion was owned to Chinese creditors and $3.5 billion to Eurobond holders - the two creditors that are presumed to be delaying the debt relief negotiations (Reuters, April 2023). Reports have stated that China is reluctant to accept the suggested haircuts as it argues it would be unfair if it did so while multilateral institutions did not face the same terms. However, more recent articles have painted a brighter picture suggesting a possible breakthrough as China has supposedly softened its stance following criticism from various institutions including the World Bank. The Wall Street Journal (April, 2023) wrote that China could be willing to drop its demand that multilaterals also accept haircuts, in exchange for more concessional loans and grants to countries in default.
- Against a challenging global economic backdrop, the Zambian economy has remained fairly resilient with growth of 4.7% in 2022 despite weaknesses in the mining and agriculture sectors. GDP growth is expected to slow down in 2023 to 4.2% due to tight global financial conditions, adverse weather conditions as well as elevated food and energy prices. Annual inflation which remained in single digits from May 2022, recently returned to double digits in April 2023. As a result, the Bank of Zambia's Monetary Policy Committee raised the Monetary Policy Rate for the second consecutive meeting by 25bps to 9.50% in their May meeting. With inflation forecasted to remain above target over the forecast horizon, monetary conditions are expected to remain tight in the short to medium term.

KEY PORTFOLIO IMPLICATIONS

- Global equity markets gained modestly in April with the S&P 500 index rising 1.6% despite anxiety among investors around the fragilities in the US banking system, with some analysts contemplating that the Federal Reserve would likely have to pause on further interest rate hikes or even pivot to cutting rates sooner rather than later. With major central banks continuing to raise interest rates to curb elevated inflation, investor sentiment is likely to remain subdued in the short-to-medium term. Therefore, caution will be maintained 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.
- The outlook for local equities remains relatively stable in the near term. However, some counters may come under pressure due to increased borrowing costs and reduced consumer spending resulting from the contractionary monetary policy action.
- With the second consecutive monetary policy rate hike coupled with tight liquidity conditions, interest rates are likely to trend upward on the domestic Treasury bill and bond markets. While the rise in interest rates bodes well for money market instruments, the paralleled rising inflation poses a risk to real returns. Meanwhile, demand for government bonds 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 rising cost of doing business as well as foreign exchange fluctuations.

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.