MONTHLY FLASH REPORT

JULY 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 July 2023:

OPERATING HIGHLIGHTS

- The **kwacha** ended opened the month at ZMW17.56/USD1 and closed at ZMW18.82/USD1, translating into a monthly depreciation of 7.14% and Year to Date (YTD) movement of -4.12%. Following the remarkable performance in June, the local unit ended the month on the back foot as demand for hard currency outweighed supply. Against the South African Rand, British Pound Sterling and Euro, the local unit lost 13.96%, 8.45% and 8.38% respectively.
    - Money **market liquidity** decreased to an average of ZMW 4.05 billion from ZM6.46 billion and the average **interbank rate** increased to 9.53% from 9.47% the prior month.
- Annual **inflation** reached a 15-month high of 10.3% in July. The uptick was attributed to the price of food items increasing at a faster pace between July 2022 and July 2023. While annual non-food inflation remained unchanged, annual food inflation rose from 11.6% to 12.1%. On a month on month basis, inflation rose by 0.1 percentage points to 0.9%.
- **Copper prices** on the London Metal Exchange (LME) opened the month at USD 8,209.50/tonne and closed at USD 8,635.25/tonne, translating into a monthly appreciation of 5.19% and a YTD movement of 2.97%. Despite having struggled in the second quarter of 2023 due to a slow recovery in demand from China and concerns over global economic growth, the price of the red metal rebounded in July owing to lower supply relative to expected demand from key consumers such as China.
- July recorded a total of six price movements including companies such as Airtel (27.66%), CEC (0.40%), Chilanga (-0.50%), Zanaco (-1.43%), CEC Africa (-2.22%) and ZamBeef (-11.20%).The **LuSE All Share Index** closed the month at 8,361.81 points, representing a month on month gain of 1.49% from June and YTD movement of 13.96%. The **LuSE Free Float Index closed** the month at 5,256.65 points representing a month on month loss of 0.62% and YTD movement of 9.21%. Speaking to the trading activity, the total number of trades registered on the LuSE was 1,242 down from 1,444 the prior month, while the total turnover registered for the month was ZMW10,114,832.74 up from ZMW10,031,542.47
- **Global equities** as measured by the MSCI World Index had a USD monthly gain of 3.29% (YTD +17.74%). In kwacha terms the index gained 10.67% (YTD +22.58%).
- The **T-bill auctions** were held on the 13th and 27th July:

	Amount Offered	Amount Bid	Amount Allocated	Yield Rate (%)	Prev Yield (%)	Change (%)
91	300.00	255.93	255.67	9.5000	9.7999	0.2999
182	340.00	258.02	257.96	10.3000	11.0006	0.7006
273	360.00	79.43	79.35	12.5001	12.9999	0.4998
364	1,000.00	740.53	738.40	16.0511	16.0511	-
Total	**2,000.00**	**1,333.91**	**1,331.38**			

The auctions had an average bid rate of 65.87% and average allocation rate of 65.73%, in cost terms. Downward interest rate movements were recorded across most tenors with the exception of the 364-day T-bill rate which remained unchanged at 16.05%. The most significant movement was recorded on the 182-day T-bill rate, which fell by 70 basis points to 10.30%. **August auctions: 10th and 24th**

- The **Government bond** auction held on 21st 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	191.30	188.99	16.50% - 18.00%	Nil	18.0000	18.0000	-
3	400.00	645.37	631.76	19.00% - 22.00%	23.00% - 23.00%	22.0000	22.0000	-
5	650.00	983.32	920.13	22.00% - 24.50%	25.00% - 25.00%	24.5000	24.5000	-
7	350.00	498.57	466.35	12.00% - 25.30%	25.50% - 25.50%	25.3000	25.3000	-
10	500.00	1,655.35	1,176.07	23.00% - 26.75%	27.00% - 28.00%	26.7500	27.7500	(1.0000)
15	400.00	800.86	713.39	24.00% - 27.75%	Nil	27.7500	27.7500	-
Total	**2,600.00**	**4,774.77**	**4,096.69**					

The auction had a subscription rate of 183.65% (marking the highest subscription level in 2 years) and allocation rate of 157.57%, in cost terms. Yields remained unchanged across the board with the exception of the 10-year bond that fell by 100 basis points to 26.75%. Majority of the bids were housed on the 10-year (34.67%), 5-year (20.59%) and 15-year (16.77%) bonds. On a year to date basis, 57.80% of the total amount offered was sold. **Next Auction Date:** 18th August

- The July **Purchasing Managers Index (PMI)** reading marginally fell to 51.0 from 51.2 in June. Despite the slight reduction, the reading signaled an expansion in business activity for the third consecutive month. Business conditions continued to improve, with further increases in output and new orders. In addition, the month recorded the fastest rise in employment in over a year.

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LOOKING AHEAD

- Kicking off the third quarter, global market sentiment remained relatively positive in July driven by positive economic data in major economies. The drop in average inflation in developed markets and resilient GDP growth particularly in the United States supported a broad rally in risk assets. Global stocks in particular recorded gains across the eleven industry sectors. After being at the bottom for most of the first half of this year, stocks in the energy sector outperformed their peers with gains of 7.4%, followed by communications (+6.9%) and financials (+4.8%). With technology stocks continuing to dominate on a year to date basis, the tech heavy Nasdaq 100 Index posted monthly gains of 3.8%, closely followed by the blue chip Dow Jones Industrials and the broad based S&P 500, which advanced 3.4% and 3.2%, respectively. As investors remain optimistic that inflation in developed economies could fall closer towards the 2% target in the coming months, thus prompting a slower pace of interest rate hikes from major central banks, global markets are expected to continue posting gains (in US dollar terms) over the medium term. However, due to continued geopolitical uncertainties stemming from the ongoing war between Russia and Ukraine, as well as continued concerns about a global economic slowdown, offshore markets may experience bouts of volatility and selling pressure in the short term.
- On the local front, credit rating agency Moody's upgraded Zambia's local currency long term issuer rating to Caa3 (speculative) from Ca (highly speculative). The upgrade followed the agreement in principle between the Zambian government and its Official Creditor Committee (OCC) in June, which excludes local currency debt from the restructuring treatment, therefore reducing the risk of losses for local currency debt holders. The agreement to restructure USD 6.3 billion worth of external debt has paved the way for additional funding and budget support for various sectors from co-operating partners such as the World Bank Group and the African Development Bank, in addition to unlocking further disbursements under the approved USD 1.3 billion Extended Credit Facility agreement with the International Monetary Fund. Nonetheless, the Zambian economy remains susceptible to downside risks and external shocks in the near term due to the country's heavy dependence on copper and continuing uncertainties surrounding the global macroeconomic growth outlook.

KEY PORTFOLIO IMPLICATIONS

- The stable outlook for local listed equities remains intact, despite the risk of some counters coming under pressure due Zambia's weak short-term economic growth prospects as the country continues to grapple with unresolved issues in the mining sector. Our investment strategy will remain focused on maintaining exposures to profitable and well-run businesses with strong management teams and stable operating cash flows. On the private equity front, growth is expected to mirror the listed equity market over the medium to long term.
- While the recent bull run in global markets has resulted in strong capital gains in the offshore equities portfolio, inflation in developed economies remains elevated and is likely to remain so for the foreseeable future. We therefore maintain an underweight positioning on the offshore equities portfolio.
- Following the recent progress on the debt restructuring process, domestic bond yields are expected to remain relatively stable in the short term, with a bias towards further downward movements across the yield curve over the medium to long term. Further drops in yields bode well for government bonds and fixed corporate bonds but may negatively impact floating rate notes and money market instruments.
- As has been reiterated for most of this year so far, the property market remains poised to grow further in the medium term, provided that assets (especially commercial and residential real estate) are anchored by quality tenants and prime locations.

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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