

MONTHLY FLASH REPORT

AUGUST 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 August 2023:

OPERATING HIGHLIGHTS

- The **kwacha** opened the month at ZMW18.82/USD1 and closed at ZMW20.20/USD1 translating into a monthly depreciation of 7.32% and Year to Date (YTD) movement of -11.74%. The local unit closed on the back foot for the second consecutive month as high demand for hard currency persisted on the market. Against the South African Rand, British Pound Sterling and Euro, the local unit lost 1.49%, 5.83% and 5.71%, respectively.
 - Money **market liquidity** decreased to an average of ZMW 3.18 billion from ZMW 4.05 billion and the average **interbank rate** increased to 9.71% from 9.53% the prior month.
- Annual **inflation** rose to 10.8% from 10.3% the previous month. The uptick was attributed to the price of both food and non-food items increasing at a faster pace between August 2022 and August 2023. Annual food inflation rose to 12.6% from 12.1% while annual non-food inflation rose to 8.5% from 7.8%. On a month on month basis, inflation fell by 0.1 percentage points to 0.8%.
- Copper prices** on the London Metal Exchange (LME) opened the month at USD 8,635/tonne and closed at USD 8,359/tonne, translating into a monthly depreciation of 3.20% and a YTD movement of -0.33%. The price of the red metal fell as a firmer US dollar made greenback-priced metals more expensive to holders of other currencies. This coupled with inventories in the LME warehouses reaching their highest level since October 2020.
- August recorded a total of seven price movements including companies such as Airtel (45.00%), REIZ (1.82%), CEC (1.39%), Puma (0.41%), Zanaco (0.29%), Chilanga (-0.57%) and Zambeef (-4.35%). The **LuSE All Share Index** closed the month at 8,704.63 points, representing a month on month gain of 4.10% from July and YTD movement of 18.63%. The **LuSE Free Float Index** closed the month at 5,289.93 points representing a month on month gain of 0.63% and YTD position of 9.90%. Speaking to the trading activity, the total number of trades registered on the LuSE was 1,406 up from 1,242 the prior month, while the total turnover registered for the month was ZMW4,187,231.10 down from ZMW10,114,832.74
- Global equities** as measured by the MSCI World Index had a monthly loss of 2.55% (YTD +14.73%) in USD terms. In kwacha terms, the index gained 4.58% (YTD +28.19%).

- The **T-bill auctions** were held on 10th and 24th August:

	Amount Offered	Amount Bid	Amount Allocated	Yield Rate (%)	Prev Yield (%)	Change (%)
91	300.00	333.64	314.44	⇒ 9.5000	⇒ 9.5000	⇒ -
182	340.00	443.76	442.45	↓ 10.1500	⇒ 10.3000	↓ 0.1500
273	360.00	439.42	431.80	↓ 12.4001	⇒ 12.5001	↓ 0.1000
364	1,000.00	1,002.62	410.12	↓ 15.5000	⇒ 16.0511	↓ 0.5511
Total	2,000.00	2,219.44	1,598.81			

The auctions had an average bid rate of 102.2% and average allocation rate of 86.57%, in cost terms. Downward interest rate movements were recorded across most tenors with the exception of the 91-day which remained unchanged at 9.50%. The most significant movement was recorded on the 364-day which fell by 55 basis points to 15.50%. **September auctions: 7th and 21st**

- The **Government bond** auction held on 18th August 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	143.93	142.24	17.00% - 18.00%	Nil	⇒ 18.0000	⇒ 18.0000	⇒ -
3	400.00	502.08	170.88	20.00% - 22.00%	23.00% - 23.00%	⇒ 22.0000	⇒ 22.0000	⇒ -
5	650.00	254.55	246.58	22.50% - 24.50%	Nil	⇒ 24.5000	⇒ 24.5000	⇒ -
7	350.00	99.65	95.66	24.00% - 25.30%	Nil	⇒ 25.3000	⇒ 25.3000	⇒ -
10	500.00	1,259.15	1,223.39	20.00% - 26.75%	26.80% - 27.875%	⇒ 26.7500	↓ 26.7500	⇒ -
15	400.00	722.36	689.28	24.00% - 27.75%	Nil	⇒ 27.7500	⇒ 27.7500	⇒ -
Total	2,600.00	2,981.72	2,568.03					

The auction had a subscription rate of 114.18%, down from the previous months 183.65% in cost terms. The allocation rate fell to 98.77% as bids were rejected on the 3-year and 10-year tenors. While investor sentiment remained relatively high for the second consecutive month, yields remained unchanged across the board. Majority of the bids were housed on the longer end of the yield curve, with 42.23% of the total bids being on the 10-year. On a year to date basis, 62.92% of the total amount offered was sold. **Next Auction Date: 29th September**

- The August **Purchasing Managers Index (PMI)** reading fell to 49.2, from 51.0 the previous month, signaling a marginal deterioration in business conditions. The growth trend observed over the second quarter, came to an end as both output and new orders were negatively impacted by financial pressures partly arising from the local currency weakness.

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LOOKING AHEAD

- The Bank of Zambia's (BoZ) Monetary Policy Committee (MPC) increased its benchmark lending rate for the third consecutive meeting by 50 basis points to 10.0%. The contractionary monetary policy stance was driven by the escalating inflation, moving further away from the target band of 6% - 8% in the current and forecast period. Despite raising interest rates by a total of 1-percentage point on a year to date basis, inflation accelerated to a 16 month high in August and is expected to average 10.2% in 2023 with a decline to 9.3% in 2024 and the first half of 2025. Given that Zambia is a net importer, the volatility of the local currency has been a key contributor to rising prices. High foreign exchange demand is expected to continue over the remaining months of the year, stemming from energy and agricultural inputs. On the supply side, inflows are limited by lower copper production as well as dwindling international reserves.
- Elsewhere, at the 2023 Jackson Hole Economic Symposium, major central bank heads such as Christine Lagarde (European Central Bank) and Jerome Powell (US Federal Reserve) affirmed their commitment to bringing inflation down to the 2% target. While inflation has declined from its peak, it remains significantly above target thus warranting a restrictive policy in the near term. The Fed is expected to hold rates steady at their September meeting, and thereafter raise rates by 25 bps sometime in Q4 2023.
- Looking ahead, Finance and National Planning Minister Situmbeko Musokotwane is set to present the 2024 National Budget to Parliament on September 29th 2023. The budget is expected to outline the government's fiscal policies and plans for the coming year.

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.