AFRICAN LIFE FINANCIAL SERVICES (Z) LIMITED

MONTHLY FLASH REPORT

MAY 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 May 2023:

OPERATING HIGHLIGHTS

- In the month of May, the **kwacha** gave back some of the April gains by losing 12.20% against the US dollar. The local unit which opened at ZMW17.73/USD1 and closed at ZMW19.90/USD1 came under immense pressure as demand for hard currency outweighed supply. On a year to date basis, the kwacha had a movement of -10.09%.
  - Money **market liquidity** increased to an average of ZMW 3.29 billion from ZMW 1.85 billion and the average **interbank rate** increased to 9.26% from 9.00% the prior month.
- Annual **inflation** fell to 9.9% from 10.2% the previous month. The slowdown was attributed to the price of non-food items increasing at a softer pace between May 2022 and May 2023. While annual food inflation remained unchanged at 11.6%, annual non-food inflation fell from 8.3% to 7.6%.
- **Copper prices** on the London Metal Exchange (LME) opened the month at USD 8,570.00/tonne and closed at USD 8,016.00/tonne, translating into a monthly depreciation of 6.46% and a YTD movement of -4.42%. During the month, investors became increasingly bearish toward the red metal due to China's recovery, predominantly in the manufacturing sector, falling short of expectations as well as gloomy global growth projections. This, coupled with a relatively strong US dollar, resulted in rising inventories in the LME warehouse, thus weighing down on the price
- May recorded a total of five price movements on Puma (24.62%), Airtel (17.50%), StanChart (16.92%), BATZ (2.70%) and Zambia Sugar (-0.17%). The **LuSE All Share Index** closed the month at 8,242.08 points, representing a month on month gain of 2.78% from April and YTD movement of 12.32%. The **LuSE Free Float Index** closed the month at 5,287.01 points representing a month on month gain of 1.15% and YTD movement of 9.84%. Speaking to the trading activity, the total number of trades registered on the LuSE was 1,632 up from 990 the prior month while the total turnover registered for the month was ZMW3,406,360.96 down from ZMW22,029,145.09.
- Global equities as measured by the **MSCI World Index** had a USD monthly loss of 1.25% (YTD +7.60%). However, in kwacha terms the index gained 10.80% (YTD +18.46%).

- The **T-bill auctions** were held on the 4th and 18th of May:

	Amount Offered	Amount Bid	Amount Allocated	Yield Rate (%)	Prev Yield (%)	Change (%)
91	300.00	119.74	119.61	10.0034	10.0101	0.0067
182	340.00	12.68	12.51	10.9000	11.5001	0.6001
273	360.00	101.25	100.67	13.5000	13.5000	-
364	1,000.00	1,136.87	1,130.03	16.0000	15.7500	0.2500
Total	**2,000.00**	**1,370.54**	**1,362.82**			

The auctions had an average bid rate of 52.47% and average allocation rate of 52.17%, in cost terms. Downward rate movements were recorded on the 91-day and 182-day T-bills, while an upward rate movement was recorded on the 364-day T-bill. The most significant movement was recorded on the 182-day which fell by 60 basis points to 10.9%. **June auctions: 1st, 15th and 29th**

- The **Government bond** auction held on 26th May 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	14.81	13.67	17.00% - 18.00%	Nil	18.0000	18.0000	-
3	400.00	115.78	113.80	17.00% - 22.00%	Nil	22.0000	22.0000	-
5	650.00	56.21	51.80	22.00% - 24.00%	Nil	24.0000	24.0000	-
7	350.00	18.16	15.62	24.50% - 25.49%	Nil	25.4900	25.4900	-
10	500.00	137.04	124.91	24.89% - 27.75%	Nil	27.7500	27.7500	-
15	400.00	88.05	70.80	20.57% - 27.75%	Nil	27.7500	27.7500	-
Total	**2,600.00**	**430.05**	**390.60**					

The auction had a subscription rate of 16.54% and allocation rate of 15.02%, in cost terms. All yields remained unchanged with majority of the bids being on the 10-year (31.87%), 3-year (26.92%) and 15-year (20.47%) bonds. On a year to date basis, 39.14% of the total amount offered was sold. **Next Auction Date:** 23rd June

- The May **Purchasing Managers Index (PMI)** reading rose to 51.4 from 48.7 in April, signaling an improvement in business activity for the second consecutive month. Business conditions in the private sector were enhanced by expansions in output and new orders as well as easing inflationary pressures resulting in input costs rising at a softer pace.

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LOOKING AHEAD

- The Bank of Zambia's Monetary Policy Committee (MPC) raised the Monetary Policy Rate (MPR) for the second consecutive meeting by 25 basis points (bps) to 9.5% during their May meeting. The MPC had previously raised the MPR by 25bps in February after keeping it unchanged at 9.0% from November 2021. With inflation having risen to the double digits of 10.2% in April, the Central Bank Governor Danny Kalyalya stated that inflation is likely to remain elevated over the forecast horizon driven by delays in the external debt restructuring negotiations, tighter global financial conditions and the impact of the prolonged tensions between Russia and Ukraine on food and energy prices. Despite the central bank's efforts in tightening the cash reserve ratio and raising the benchmark policy rate twice, inflation remains well above the target band of 6%-8%. Thus constituting a bias for further contractionary monetary policy action this year.
- In terms of economic growth, Secretary to the Treasury Felix Nkulukusa indicated that the Zambian economy is projected to expand by 4.2% in 2023, a slight reduction from 4.7% in 2022. In effort to boost economic activity, new legislation enabling Zambians to access 20% of their pension savings with the National Pension Scheme Authority (NAPSA) was approved in April. According to Bloomberg, at the end of May, approximately ZMW 5.8 billion had been paid out since the signing of the statute into law. While in the short term the pay-outs are likely to cushion citizens from the rising cost of living, the long term impact remains uncertain. With NAPSA expected to payout a total of ZMW 11 billion (Bloomberg, 2023), its ability to participate in government bond auctions has been negatively affected. This, coupled with foreign investors shunning investments in government securities based on fears of possible restructuring of local currency debt (despite the local authorities repeatedly saying it is not an option), has resulted in record low subscriptions, with the May auction recording a Year to Date low of 16.54%. Notwithstanding the increase in market liquidity, further delays in the conclusion of the debt restructuring negotiations are likely to keep auction participation subdued in the near term.
- Elsewhere, the May CPI print showed that US headline inflation rose at the slowest pace since March 2021. As such, there is an increased likelihood that the US Federal Open Market Committee (FOMC) may pause its rate-hiking cycle and keep the federal funds target rate unchanged at 5.25% in its June meeting, allowing the tightening of the past 15 months to take effect. The European Central Bank (ECB) however, is expected to hike its benchmark rate by a further 25bps in its June and July meetings as inflation remains elevated in the Eurozone.

KEY PORTFOLIO IMPLICATIONS

- Global equity markets continued to record gains in May with the S&P 500 index rising 0.4% and the Nasdaq 100 gaining 7.7%. While analysts predict that the US Federal Reserve ("Fed") may pause its rate hiking cycle in June, inflation in the US and Europe remains above the 2% target. This suggests that the Fed is likely to keep interest rates elevated in the short to medium term. As such, caution will be maintained towards the offshore asset class.
- The outlook for local equities remains relatively stable in the near term despite the increased risk of some counters coming under pressure on the back of increased borrowing costs and reduced consumer spending. Various counters have proven to be resilient in the face of continued economic uncertainty, which has contributed to the positive performance of the LuSE All Share Index on a year-to-date basis.
- Despite the increased liquidity in the domestic banking system, the uncertainty around the debt restructuring talks between the Zambian government and external creditors coupled with the recent contractionary monetary policy stance taken by the Bank of Zambia is likely to result in interest rates trending upward on the domestic Treasury bill and bond markets. While a high interest rate environment bodes well for money market returns, the risks to the inflation outlook may result in lower real returns in the coming month. Demand for government bonds is likely to remain supressed amid continued uncertainties around the debt restructuring talks between the government and external creditors, as well as reduced participation from NAPSA as they prioritize preserving liquidity due to the ongoing partial withdrawals.
- 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 local currency volatility.

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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