AFRICAN LIFE FINANCIAL SERVICES (Z) LIMITED

MONTHLY FLASH REPORT

SETEMBER 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 September 2023:

OPERATING HIGHLIGHTS

- The **kwacha** opened the month at ZMW20.20/USD1 and closed at ZMW21.01/USD1 translating into a monthly depreciation of 4.06% and Year-to-Date (YTD) movement of -16.27%. The local unit remained on the back foot on account of reduced FX inflows and persistent demand for hard currency from importers. Against the South African Rand, British Pound Sterling and Euro, the local unit lost 3.78%, 0.77% and 1.60%, respectively.
    - Money **market liquidity** increased to an average of ZMW 5.08 billion from ZMW 3.18 billion, and the **average interbank** rate increased to 9.98% from 9.71% the prior month.
- Annual **inflation** rose to 12.0% from 10.8% the previous month. The uptick was attributed to the price of food and non-food items increasing at a faster pace between September 2022 and September 2023. Annual food inflation rose to 13.4% from 12.6% while annual non-food inflation rose to 10.1% from 8.5%. On a month on month basis, inflation fell by 0.1 percentage points to 0.7%.
- **Copper prices** on the London Metal Exchange (LME) opened the month at USD 8,359/tonne and closed at USD 8,230.25/tonne, translating into a monthly depreciation of 1.54% and a YTD movement of -1.86%. The price of the red metal was weighed down by the U.S Federal Reserve's restrictive policy stance, the stronger US dollar and higher inventories in the LME warehouses.
- September recorded a total of nine price movements on the Lusaka Securities Exchange (LuSE) including CEC (27.90%), ZCCM-IH (10.58%), Zanaco (6.94%), Puma (2.46%), Zambeef (1.36%), Zambia Sugar (-0.06%), Chilanga (-0.72%), Standard Chartered (-6.67%) and CEC Africa (-9.09%). The **LuSE All Share Index** closed the month at 9,313.30 points, representing a month-on-month gain of 6.99% and YTD movement of 26.92%. The **LuSE Free Float Index** closed the month at 5,717.32 points representing a month-on-month gain of 8.08% and YTD movement of 18.78%. Speaking to the trading activity, the total number of trades registered on the LuSE was 1,523, up from 1,406 the prior month, while the total turnover registered for the month was ZMW14, 215,107.03, up from ZMW4, 187,231.10.
- **Global equities** as measured by the MSCI World Index had a USD monthly loss of 4.45% (YTD movement of +9.63%). In kwacha terms the index lost 0.57% (YTD movement of +27.46%).
- The **T-bill auctions** were held on 7th and 21st of September

	Amount Offered	Amount Bid	Amount Allocated	Yield Rate (%)	Prev Yield (%)	Change (%)
91	300.00	409.63	408.99	9.5000	9.5000	-
182	340.00	195.93	195.88	10.0000	10.1500	0.1500
273	360.00	267.35	265.82	11.9500	12.4001	0.4501
364	1,000.00	1,644.53	1,129.31	15.3000	15.5000	0.2000
Total	**2,000.00**	**2,517.44**	**2,000.00**			

The auctions had an average bid rate of 159.26% and average allocation rate of 127.09%, in cost terms. Downward interest rate movements were recorded across most tenors with the exception of the 91-day T-bill which remained unchanged at 9.50%. The most significant movement was recorded on the 273-day T-bill which fell by 45 basis points to 11.95%. **October auctions: 5th and 19th**

- The **Government bond** auction held on 29th September:

	Amount Offered	Amount Bid	Amount Allocated	Range of Accepted Bids	Range of Rejected Bids	Yield Rate (%)	Prev Yield (%)	Change (%)
2	300.00	308.73	276.47	16.00% - 17.75%	17.99% - 20.00%	17.7500	18.0000	(0.2500)
3	400.00	773.85	392.65	20.00% - 21.50%	21.80% - 22.60%	21.5000	22.0000	(0.5000)
5	650.00	1,369.69	651.04	11.00% - 23.50%	23.95% - 24.50%	23.5000	24.5000	(1.0000)
7	350.00	323.73	280.69	24.00% - 24.50%	24.75% - 25.30%	24.5000	25.3000	(0.8000)
10	500.00	1,043.96	588.68	20.89% - 26.00%	26.20% - 27.75%	26.0000	26.7500	(0.7500)
15	400.00	610.80	410.47	26.00% - 27.00%	27.20% - 27.75%	27.0000	27.7500	(0.7500)
Total	**2,600.00**	**4,430.76**	**2,600.00**					

The auction had a subscription rate of 170.41% and allocation rate of 100%, in cost terms. As the appetite for higher yields from local and offshore players persisted, increased investor demand for government bonds manifested strongly in the most recent government bond auction, resulting in downward yield movements across the Treasury yield curve. The most significant movement was on the 5-year maturity, whose yield dropped by a 100 basis points. On a year to date basis, 67.04% of the total amount offered was sold. **Next auction date:** 27th October

- The September **Purchasing Managers Index (PMI)** reading declined to 48.1, from 49.2 the previous month. Despite the data showing evidence of further contraction in business activity for the second consecutive month, the reading also showed increased activity in the agriculture and construction sectors. New orders and business activity were negatively impacted by rising prices, predominately due to escalating fuel costs.

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LOOKING AHEAD

- The third quarter ended with the presentation of the 2024 National Budget by the Minister of Finance, under the theme “Unlocking Economic Potential”. While the 2024 proposed Budget of ZMW177.9 billion is a 6.3% increase from the 2023 Budget of ZMW 167.3 billion, in monetary terms, when expressed as a percentage of GDP, the Budget represents a reduction in overall government expenditure to 27.8% from 31.4%. The Budget irrefutably reflects the Government’s aim to achieve macroeconomic targets that are in line with the 2024 – 2026 Medium-Term Budget Plan as well as the Eighth National Development Plan. As such, in 2024 the Government targets a GDP growth rate of at least 4.8%, inflation within 6-8 percent, international reserves above 3.0 months of import cover, domestic revenues of more than 22.0% of GDP, a fiscal deficit below 4.8% of GDP and domestic borrowing of no more than 2.5% of GDP.
- The Budget, although forecasting a modest GDP growth rate of 4.8%, signals the government’s optimism about Zambia’s economic future at a time when most forecasts for the global economy are being revised downwards due to concerns about a looming recession. In the latest publication of the World Economic Outlook by the International Monetary Fund (IMF), the baseline global growth forecast indicates a slowdown from 3.5% in 2022 to 3.0% in 2023 and 2.9% in 2024. The projections fall below the historical (2000-2019) average of 3.8% owing to higher interest rates, the Russia-Ukraine conflict, widening geopolitical rifts and now the uncertainty from the war between Israel and Hamas militants. On the local front, the IMF projects Zambia’s real GDP growth to slow from 4.7% in 2022 to 3.6% in 2023, before rising to 4.3% in 2024 (IMF, 2023).
- More recently, during the 2023 Annual Meetings of the World Bank Group (WBG) and IMF that were held during the second week of October, the IMF’s Africa director, Abebe Aemro, stated that he was “hopeful” that Zambia and its official creditors would soon announce a finalized debt restructuring deal (Bloomberg, 2023). The announcement would culminate in the signing of a Memorandum of Understanding (MoU) with bilateral creditors to restructure debt worth US$6.3 billion, following the agreement in-principle reached back in June. The MoU is said to include maturity extensions to 2043, a 3-year grace period on principal payments and concessional interest rates of no more than 1% between 2026 and 2037, which will thereafter rise to a maximum of 2.5% (Fitch, 2023).

KEY PORTFOLIO IMPLICATIONS

- Despite some of the current challenges facing the private sector as evidenced in the Purchasing Managers Index (PMI) readings, the short-to-medium term outlook for local listed equities remains positive, particularly owing to the recent strides made by the Government to resolve some of the issues affecting productivity in the mining sector. Notwithstanding the negative impact of the weak local currency on counters with foreign currency denominated debt, export oriented stocks such as AECI and CEC are expected to benefit from foreign exchange gains for as long as Kwacha weakness persists.
- Demand for government bonds has remained relatively high in the last three consecutive auctions, resulting in downward yield movements across the board in the September auction. While the downward trend in yields bodes well for long dated local Treasuries on account of marked-to-market gains, some degree of caution is warranted when making additional investments in fixed income securities in the near term in view of the lingering risks of high inflation.
- Despite the restrictive monetary policy stance taken by the Bank of Zambia, Treasury bill rates have been downward trending due to the high levels of liquidity on the market, thus resulting in lower returns on money market instruments. This, coupled with rising inflation, increases the risk of negative real returns, therefore warranting an underweight tactical positioning for money markets as we head towards the end of the year.
- With offshore equities having already defied expectations by proving resilient despite the restrictive monetary policy stances taken by most major central banks, our view is that caution may still be warranted when making additional investments in the asset class in the near term, due to the growing uncertainties surrounding the global macroeconomic outlook. However, it is important to note that offshore equities do provide some level of defence against rising domestic inflationary pressures and local currency weakness.
- The outlook for the property market remains stable over the medium-to-long term despite the ongoing fragilities in the domestic economy. Therefore, where possible, we are looking to increase exposure to the asset class through the acquisition of commercial assets (at a reasonable price) with high quality tenants.

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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