MONTHLY FLASH REPORT

MAY 2024

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 2024:

OPERATING HIGHLIGHTS

- The **Kwacha** opened the month at ZMW26.72/USD1 and closed at ZMW26.20/USD1 translating into a monthly appreciation of 1.99%. The local currency's rally was mainly driven by a continuation of the tightening of liquidity conditions, resulting in a Year-to-Date (YTD) movement of +3.11%. During the month, the Kwacha gained 1.61%, 0.28% and 0.41% against the South African Rand, British Pound Sterling and Euro, respectively.
  - **Money market liquidity** fell to an average of ZMW 565.29 million from ZMW 1.08 billion, and the **average interbank** rate increased to an average of 19.94% from 17.49% in the prior month.
- Annual **inflation** increased for the eleventh consecutive month to 14.7% from 13.8% the prior month. The uptick was mainly attributed to the prices of food and non-food items increasing at a faster pace between May 2023 and May 2024. Annual food inflation rose to 16.2% from 15.7% while annual non-food inflation rose to 12.7% from 11.2%. On a month on month basis, inflation rose by 40 basis points to 1.4%.
- **Copper prices** on the London Metal Exchange (LME) opened the month at USD 9,973.75/tonne and closed at USD 9,984.5/tonne, translating into a monthly appreciation of 0.11% and YTD movement of +17.80%. Copper's rally was fueled by continued global supply challenges and strong demand from the green energy transition in the manufacturing of electric vehicles.
- The month of May recorded a total of ten price movements on the Lusaka Securities Exchange (LuSE) including Bata (54.43%),Puma (24.58%), Chilanga (17.77%), CEC Africa (9.09%),BATZ (7.76%), ZCCM-IH (0.95%), CEC (0.91%), Standard Chartered (-0.28%), Zanaco (-0.31%) and Zambeef (-0.45%). The **LuSE All Share Index** closed the month at 13,098.84 points, representing a month-on-month gain of 1.91% and YTD movement of 20.97%. The **LuSE Free Float Index** closed the month at 7,792.97 points, representing a month-on-month gain of 1.87% and YTD movement of 16.81%. Speaking to the trading activity, the total number of trades registered on the LuSE was 3,253, up from 2,899 the prior month, while the total turnover registered for the month was ZMW70,865,187.48 up from ZMW36,615,275.83.
- **Global equities** as measured by the MSCI World Index had a USD monthly gain of 4.23% (YTD +8.71%). In kwacha terms, the index gained 2.16% (YTD 10.77%).
- The **T-bill auctions** were held on the 2nd, 16th and 20th of May:

	Amount Offered	Amount Bid	Amount Allocated	Yield Rate (%)	Prev Yield (%)	Change (%)
91	360.00	446.89	446.26	9.7000	9.5000	0.2000
182	410.00	25.48	25.41	9.5000	9.5000	-
273	430.00	200.82	200.76	10.7000	10.3000	0.4000
364	600.00	693.74	687.94	16.0000	15.5000	0.5000
Total	**1,800.00**	**1,366.93**	**1,360.37**			

The auctions had an average bid rate of 44.04% and an average allocation rate of 43.80%, in cost terms. Upward rate movements were recorded across the board, except for the 182-day T-bill whose rate remained unchanged at 9.50%. The most significant movement was recorded on the 364-day T-bill rate which rose by 50 basis points to 16.00%. **June auctions:** 13th and 27th

- The **Government bond** auction held on 24th May had the following results:

	Amount Offered	Amount Bid	Amount Allocated	Bid to Cover Ratio	Range of Accepted Bids	Range of Rejected Bids	Yield Rate (%)	Prev Yield (%)	Change (%)
2	280.00	16.21	15.71	1.03	13.00% - 17.00%	18.00% - 18.00%	17.0000	17.0000	-
3	320.00	25.84	24.84	1.04	14.00% - 20.00%	25.00% - 25.00%	20.0000	20.0000	-
5	330.00	161.54	160.84	1.00	16.00% - 22.00%	26.00% - 26.00%	22.0000	22.0000	-
7	240.00	176.49	176.49	1.00	20.00% - 23.00%	Nil	23.0000	23.0000	-
10	240.00	255.51	247.01	1.03	19.00% - 25.00%	25.48% - 26.50%	25.0000	24.9700	0.0300
15	190.00	141.22	141.22	1.00	20.00% - 26.50%	Nil	26.5000	26.5000	-
Total	**1,600.00**	**776.81**	**766.11**						

The auction had a subscription rate of 48.55% and an allocation rate of 47.88%. Yields remained unchanged across most tenors, with the exception of the 10-year bond whose yield marginally rose by 3 basis points. Majority of the bids were housed on the medium to long end of the curve with the 10-year paper being the most sought out. On a year-to-date basis, 67.19% of the amount on offer was allocated. **Next auction date:** 21st June

- The May **Purchasing Managers Index (PMI)** reading rose to 49.4 from 47.7 the previous month, signalling a further contraction in business activity albeit at the slowest pace so far in 2024. Business activity was negatively impacted by the persistent drought and electricity load management, which served to hamper growth in output and demand.

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

- The Bank of Zambia's Monetary Policy Committee (MPC) raised the Monetary Policy Rate (MPR) for the seventh consecutive meeting to 13.5%. Notwithstanding the adverse impact of the drought, particularly on the agriculture and energy sectors, the 100 basis point hike of the benchmark policy rate was necessitated by the need to curtail the persistent inflationary pressures. Given that the policy rate decisions are primarily driven by the trend in consumer prices, the MPC is likely to raise its benchmark policy rate by 50 – 100 basis points at its August meeting as inflation is likely to remain above the target band of 6% - 8%. Upside risks to the inflation outlook include higher maize grain prices due to reduced supply amid adverse weather conditions, higher cost of production resulting from extended hours of electricity load management and the threat of higher energy prices owing to the conflict in the Middle East and tighter global financial conditions (Bank of Zambia, 2024).

- The challenging economic environment brought on by the ongoing drought, resulted in the Bank of Zambia lowering their GDP growth forecast for 2024 to 2.9% from the previous forecast of 3.9%. The Ministry of Finance and National Planning also revised their 2024 growth forecast downward to 2.3% from 4.4%, in line with the forecasts from the International Monetary Fund (IMF). Although Zambia's near-term outlook remains uncertain, the medium-term outlook appears more favourable, supported by expanding mining production and restored debt sustainability, with expectations for improved growth forecasts of 6.6% and 5.9% for 2025 and 2026 respectively (IMF, 2024). Further to this, the Zambian government is set to propose a revised 2024 budget to Parliament on June 18th, which will seek to reprioritize spending to accommodate emergency relief for approximately one million additional households. This follows the Zambian government's request for augmentation of the existing \$1.3 billion Extended Credit Facility (ECF) to \$1.7 billion to be tabled at the IMF board meeting which is scheduled to take place at the end of June. The additional disbursement of \$388 million would add to the \$550 million received thus far in pledges from international donors towards humanitarian support following the declaration of the drought as a national disaster.

- Elsewhere, the US Federal Reserve kept its benchmark lending rate at the current range of 5.25% - 5.50% for the seventh time in a row, while signalling fewer rate cuts than previously estimated. Fed officials pencilled in just one rate cut in 2024, compared to the March forecast of three cuts. The Fed has kept interest rates at a 23-year high for nearly a year, after kicking off an aggressive rate-hiking campaign in March 2022. With US inflation remaining well above the Fed's 2% target, albeit considerably below the peak of 9% seen two years ago, a pivot is dependent on clear indications that inflation will continue to drift lower in the coming months.

KEY PORTFOLIO IMPLICATIONS

- The short term outlook for local equities remains positive, backed by the 2023 full-year earnings results from some of the listed counters, which have shown improved performance as well as favourable dividends declared. Nonetheless, due to the prevailing macroeconomic challenges that have been highlighted, we will continue to exercise caution toward the asset class in the near term focusing on counters that are consistent dividend payers and have a proven track record of resilience in challenging economic environments such as Zambia Sugar, CEC and Airtel.
- With regards to government securities, while subscriptions in the Treasury Bill and Treasury Bond auctions have marginally improved, participation in the auctions is likely to be primarily driven by liquidity conditions. While the Bank of Zambia is expected to maintain a restrictive monetary policy stance, following the recent progress in the debt restructuring negotiations, participation from offshore investors in the local bond markets may improve in the coming months (all things being equal). Furthermore, it is important to note that due to the prevailing risks of higher inflation, there is a possibility that yields on government bonds may trend upwards (albeit at a modest pace) as the government aims to maintain a sustainable cost of funding.
- The contractionary monetary policy stance taken by the Bank of Zambia has continued to put a significant strain on inter-bank liquidity. This coupled with the upward trending inflation has resulted in higher T-bill rates and term deposit rates from various commercial banks, predominantly on shorter term paper. If liquidity conditions remain constrained, performance on money market securities is likely to continue improving. However, with high inflation still lingering in the economy, we maintain a view that the risk of negative real returns still warrants an underweight tactical position for money markets in the near term.
- The offshore asset class is expected to experience some bouts of volatility and selling pressure in the coming months due to uncertainties regarding the timing of interest rate cuts by the US Federal Reserve, lofty equity market valuations particularly in the US, as well as the ongoing geopolitical tensions. However, the continued resilience of the US economy coupled with notable progress in the Chinese economic recovery bodes well for global economic activity which may continue to support global equity markets (barring any adverse inflation shocks or escalation in the conflicts in Europe and the Middle East). Therefore, although we will continue to remain cautious when making additional investments in the offshore asset class in the near term, our view is that the prevailing risk and return dynamics inherent in the asset class, as well as the existing fragilities in the domestic economy may justify a less aggressive underweight tactical positioning for the time being.
- The outlook for the property market, though stable over the medium-to-long term, remains somewhat uncertain in the near term due to the rising inflationary and interest rate environment, the expected volatility in the USD/ZMW exchange rate and the forecasted slowdown in economic growth in the short term due to the adverse impacts of the drought. However, we maintain the view that returns from the asset class will remain supported in the short-to-medium term, as long as business conditions continue to remain on a more positive path, despite the prevailing economic challenges. Therefore in line with our longer term strategy for the asset class, we will continue to pursue opportunities to acquire 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.

Address: *74 Independence Avenue, P. O. Box 51331, Lusaka, Zambia;*
Website*:* *www.aflife.co.zm* ***Email****:* *mpile@aflife.co.zm*