MONTHLY FLASH REPORT

FEBRUARY 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 February 2024:

OPERATING HIGHLIGHTS

- The **kwacha** opened the month at ZMW27.13//USD1 and closed at ZMW23.47/USD1 translating into a monthly appreciation of 13.46%. The Kwacha's rally was driven by the Bank of Zambia's aggressive monetary policy tightening, resulting in a Year- to-Date (YTD) movement of +8.71%. During the month, the Kwacha gained 15.96%, 13.79% and 13.58% against the South African Rand, British Pound Sterling and Euro, respectively.
    - **Money market liquidity** reduced to an average of ZMW 1.33 billion from ZMW 2.53 billion, and the **average interbank** rate significantly increased to an average of 18.38% from 11.03% in the prior month.
- **Annual inflation** rose for the eighth consecutive month to 13.5% from 13.2% in January 2024. The uptick was attributed to the prices of both food and non-food items increasing at a faster pace between February 2023 and February 2024. Annual food inflation rose to 14.1% from 13.7% and annual non-food inflation rose to 12.7% from 12.4%. On a month on month basis, inflation marginally rose to 2.2% from 2.1% the previous month.
- **Copper prices** on the London Metal Exchange (LME) opened the month at USD 8,512.75/tonne and closed at USD 8,388.50/tonne, translating into a monthly depreciation of 1.46% and YTD movement of -1.03%. The price of the red metal traded lower due to concerns that near-term demand from top consumer China remained relatively soft as the economy continues to recover gradually from the Covid pandemic.
- February recorded a total of nine price movements on the **Lusaka Securities Exchange** (LuSE) including Stanchart (67.27%), Zanaco (30.86%), BATZ (17.95%), ZCCM-IH (11.90%), Puma (9.80%), REIZ(3.05%), AECI (0.43%), Zambeef (-1.22%) and Zambia Sugar(-6.69%).The LuSE All Share Index closed the month at 12,071.82 points, representing a month-on-month gain of 8.06% and YTD movement of +11.49%. The LuSE Free Float Index closed the month at 7,299.96 points, representing a month-on-month gain of 6.36% and YTD movement of 9.42%. Speaking to the trading activity, the total number of trades registered on the LuSE was 2,266 up from 1,905 the prior month while the total turnover registered for the month was ZMW431,748,306.12 up from ZMW18,021,427.80.
- **Global equities** as measured by the MSCI World Index Index had a USD monthly gain of 4.11% (YTD +5.30%). In Kwacha terms, the index lost 9.90% (YTD -3.87%) due to the local currency's appreciation against the greenback.

- The **T-bill auctions** held on the 8th and 22nd of February had the following results:

	Amount Offered	Amount Bid	Amount Allocated	Yield Rate (%)	Prev Yield (%)	Change (%)
91	300.00	463.00	462.84	9.5000	9.5000	-
182	340.00	21.54	21.51	9.5000	9.1000	0.4000
273	360.00	20.61	20.59	10.3000	10.3000	-
364	1,000.00	679.26	673.89	15.4500	15.4500	-
Total	**2,000.00**	**1,184.41**	**1,178.83**			

The auctions had an average bid rate of 30.4% and an average allocation rate of 30.2%, in cost terms. An upward rate movement was recorded on the 182-day Treasury Bill, which rose by 40 basis points to 9.5%. **March auctions:** 7th and 21st

- The **Government bond** auction held on 16th February 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	350.00	55.82	51.82	1.08	15.00% - 17.00%	19.00% - 21.50%	17.0000	17.0000	-
3	400.00	38.55	31.27	1.23	18.00% - 20.00%	21.00% - 26.50%	20.0000	20.0000	-
5	420.00	44.16	40.66	1.09	14.00% - 22.00%	22.50% - 25.00%	22.0000	22.0000	-
7	300.00	203.77	162.82	1.25	21.00% - 23.00%	24.00% - 25.00%	23.0000	23.0000	-
10	300.00	561.77	489.52	1.15	17.00% - 24.97%	25.00% - 26.50%	24.9700	24.9700	-
15	230.00	337.48	336.93	1.00	10.00% - 26.5%	27.50% - 27.50%	26.5000	26.5000	-
Total	**2,000.00**	**1,241.55**	**1,113.02**						

The auction held on 16th February had a subscription rate of 62.08% and an allocation rate of 55.56%. Yields remained unchanged across the board with majority of the bids being skewed towards the longer end of the curve. On a year-to-date basis, 77.83% of the amount on offer was allocated. **Next auction date:** 28th March

- The February **Purchasing Managers Index (PMI)** reading fell to 47.3, from 49.2 the previous month. The reading signaled a contraction in business activity for the third consecutive month as a result of tight liquidity conditions, which led to the sharpest fall in new orders since September 2020.

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LOOKING AHEAD

- For the most part, February was a fairly good month for local asset classes mainly driven by the Kwacha's rally, continued upward share price movements on the local stock market and a reduction in fuel prices, which were previously raised by 14.04% for petrol and 7.31% for diesel in January. Despite the ongoing uncertainties surrounding the debt restructuring talks with external creditors, economic data provided evidence that the Zambian economy remained relatively resilient with inflation rising by only 0.1 percentage points on a month on month basis. Unfortunately, the economy has been struck by another major headwind in the form of a drought, resulting in President Hakainde Hichilema declaring a national disaster amid the devastating impact of El Nino and climate change on local food production and electricity generation. With the drought conditions affecting 84 of the 116 districts in Zambia, nearly 50% of the 2.2 million hectares of maize crop were destroyed, whilst the power generation deficit rose to approximately 430 megawatts. To mitigate the impacts, local authorities announced plans to import electricity and ration supply through 8-hour load shedding across the country. Furthermore, in order to bolster the country's food security, there may be scope for grain imports with countries such as Tanzania and Uganda recently expressing their willingness to help tackle the food scarcity by exporting maize to Zambia.

- As the first quarter draws near to a close, economic growth remains a major concern. With the Bank of Zambia (BoZ) aiming to curb inflation with their aggressive monetary policy stance, the tighter financial conditions coupled with drought mitigation measures pose a risk to the economic growth outlook. In the near term, inflationary pressures are also likely to persist, which suggests that we may see some additional monetary policy tightening from the central bank, all things being equal. However, any significant progress in the debt restructuring process is likely to be received positively by both local and foreign investors, and may ease the pressure on the local currency. Notwithstanding the prevailing headwinds, the government's continued fiscal consolidation efforts and the relatively positive investor sentiment towards Zambia means that the country's economy is well positioned to benefit significantly from any improvements in production in the mining sector over the longer term.

- Elsewhere, geopolitical conflicts continue to create uncertainties for the global macroeconomic outlook. The continued war between Israel and Hamas has resulted in rising crude oil prices, with no end in sight. This poses a major risk to the global inflation outlook and may make it difficult for major central banks to start cutting interest rates as expected by June this year. Furthermore, recent macroeconomic data has shown that the US economy has remained surprisingly resilient with a relatively strong labor market and solid economic growth, placing the timing of any potential interest rate cuts by the US Federal Reserve further into question. Interestingly, although the likes of the Fed and the European Central Bank are likely to only start cutting interest rates in the latter half of the year, the Bank of Japan recently raised interest rates for the first time since 2007, to 0% - 0.1% from -0.1%. This shift in Japan's monetary policy may have longer term implications for global capital markets as the Japanese yen has been a major funding currency over the past few years for traders and investors looking to borrow in yen (benefiting from the negative interest rates that were available in Japan up until now) in order to invest in higher yielding assets such as US equities and Treasuries.

KEY PORTFOLIO IMPLICATIONS

- The outlook for local equities remains positive, evidenced by the 2023 full-year earnings announcements received so far from some of the listed counters, which have shown improved performance as well as favorable 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.
- With regards to government securities, subscriptions in the Treasury Bill and Treasury Bond auctions are likely to remain negatively impacted by the restrictive monetary policy conditions. With the ongoing liquidity constraints, demand for government securities by local investors may continue to wane in the coming months. However, the key factor that is expected to have an impact on yields (and/or coupon rates) in the short term is the inflation outlook.
- The recent increases in the Monetary Policy Rate and the Statutory Reserve Ratio were initially expected to result in higher T-bill rates and Treasury bond yields owing to the tighter liquidity conditions. However, so far returns on money market instruments in particular, have been fairly muted, although we have noted an increase in the interest rates being offered by some commercial banks on 30-90-day term deposits in recent weeks. If liquidity conditions remain constrained, we may start to see money market returns start to improve overall. Moreover, with high inflation still lingering in the economy, we maintain the view that the risk of negative real returns still warrants an underweight tactical positioning for money markets in the near term.
- Meanwhile, with the strong rally in global equities that has been experienced since the beginning of the year, our view is that US equities in general and the major technology stocks (such as Apple Inc., Amazon, Nvidia, Alphabet/Google, Microsoft, Tesla and Meta Platforms/Facebook) in particular, may have become slightly more risky due to their relatively high valuations. As alluded to previously, the likelihood of multiple interest rate cuts by the Federal Reserve has diminished owing to the resilience of the US economy. Therefore, the prevailing risk-reward profile for the asset class warrants a high degree of caution when considering additional investments in the near term (all else being equal).
- The outlook for the property market, though stable over the medium-to-long term, has been somewhat negatively impacted by the rising inflationary and interest rate environment, the weaker Kwacha and the potential slowdown in economic growth in the short term due to load shedding. However, we remain cautiously optimistic 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 as previously stated, where possible, we will continue to pursue opportunities 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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