MONTHLY FLASH REPORT

JANUARY 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 January 2024:

OPERATING HIGHLIGHTS

- The **kwacha** opened the month at ZMW25.71//USD1 and closed at ZMW27.13/USD1, translating into a monthly depreciation of 5.49%. The local unit depreciated for the seventh consecutive month amid demand for foreign currency exceeding supply. Against the South African Rand, British Pound Sterling and Euro, the local unit lost 3.60%, 5.25% and 3.45%, respectively.
    - **Money market liquidity** reduced to an average of ZMW 2.53 billion from ZMW 2.64 billion, and the **average interbank** rate increased to 11.03% from 11.06% in the prior month.
- **Annual inflation** rose to 13.2% from 13.1% the previous month. The uptick was attributed to the price of non-food items increasing at a faster pace between January 2023 and January 2024. Annual food inflation fell to 13.7% from 14.2%, while annual non-food inflation rose to 12.4% from 11.6%. On a month on month basis, inflation rose by 1.1 percentage points to 2.1%.
- **Copper prices** on the London Metal Exchange (LME) opened the month at USD 8,475.5/tonne and closed at USD 8,512.75/tonne, translating into a monthly appreciation of 0.44%. The price of the red metal edged higher amid mining supply disruptions and expectations for higher demand in the short-to-medium term, fueled by the push for renewable energy.
- January recorded a total of five price movements on the **Lusaka Securities Exchange** (LuSE) including Pamodzi (12.68%), Stanchart (10.00%), Zambia Sugar (7.17%), Zanaco (6.58%), Bata (5.33%), Zamefa (2.04%), Puma (2.00%), REIZ (0.77%), CEC (0.56%), AECI (-0.43%) and Zambeef (-2.77%). The LuSE All Share Index closed the month at 11,171.71 points, representing a month-on-month gain of 3.71%. The LuSE Free Float Index closed the month at 6,863.58 points, representing a month-on-month gain of 2.87%. Speaking to the trading activity, the total number of trades registered on the LuSE was 1,905 up from 1,575 the prior month, while the total turnover registered for the month was ZMW18,021,427.80 down from ZMW3,662,635,454.46.
- **Global equities** as measured by the MSCI World Index Index had a USD monthly gain of 1.14%. In kwacha terms, the index gained 6.69%.

- The **T-bill auctions** held on the 11th and 25th January had the following results:

	Amount Offered	Amount Bid	Amount Allocated	Yield Rate (%)	Prev Yield (%)	Change (%)
91	460.00	285.84	285.60	9.5000	9.5000	-
182	520.00	3.91	3.85	9.1000	9.5000	0.4000
273	550.00	139.96	139.91	10.3000	10.6500	0.3500
364	770.00	966.62	962.49	15.4500	15.4500	-
Total	**2,300.00**	**1,396.33**	**1,391.85**			

The auctions had an average bid rate of 96.46% and an average allocation rate of 96.16%, in cost terms. Downward interest rate movements were recorded on the 182-day and 273-day Treasury bills, which fell by 40 bps and 35 bps respectively. **February auctions: 8th and 22nd**

- The **Government bond** auction held on 19th January had the following results:

	Amount Offered	Amount Bid	Amount Allocated	Range of Accepted Bids	Range of Rejected Bids	Yield Rate (%)	Prev Yield (%)	Change (%)
2	350.00	163.29	161.79	14.00% - 17.00%	20.00% - 20.00%	17.0000	17.0000	-
3	400.00	630.28	530.00	20.00% - 20.00%	21.00% - 27.50%	20.0000	22.0000	(2.0000)
5	420.00	513.24	420.00	21.50% - 22.00%	22.15% - 100.00%	22.0000	22.5000	(0.5000)
7	300.00	185.62	105.62	21.50% - 23.00%	23.50% - 24.20%	23.0000	23.0000	-
10	300.00	1,086.88	300.00	10.00% - 24.97%	24.98% - 27.00%	24.9700	25.5000	(0.5300)
15	230.00	673.16	482.59	11.00% - 26.5%	26.70% - 100.00%	26.5000	26.7000	(0.2000)
Total	**2,000.00**	**3,252.47**	**2,000.00**					

The auction was oversubscribed with total bids amounting to ZMW 3.25 million, translating into a 100% allocation rate. Downward yield movements were recorded across most tenors, with the exception of the 2-year and 7-year bonds. The most significant movement was observed on the 3-year bond whose yield fell by 200 basis points. **Next Auction Date:** 16th February

- The January **Purchasing Managers Index (PMI)** reading fell to 49.2, from 49.6 the previous month. The reading signalled a contraction in business activity for the second consecutive month, as demand continued to be negatively impacted by inflationary pressures.

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 Monetary Policy Committee (MPC) of the Bank of Zambia (BoZ) raised the Monetary Policy Rate (MPR) to the highest level since May 2017. The MPC increased the MPR for the fifth consecutive meeting to 12.5% from 11% as part of their efforts to steer inflation back towards the target band of 6% - 8%, amid kwacha weakness and rising input costs that have continued to negatively impact consumer prices. The hike came slightly over a week after the 9 percentage point hike in the Statutory Reserve Ratio (SRR) from 17.0% to 26.0%. While the central bank aims to curb inflationary pressures, the restrictive monetary policy stance will likely lead to the tightening of financial conditions in the banking sector and the capital markets, which may put upward pressure on government bond yields in the short term (all else being equal). That being said, it is important to remember that while raising interest rates may be an effective tool in curtailing consumer demand and lowering inflation, it may also have an adverse impact on economic growth. So far the local unit has reacted positively to the aggressive monetary policy stance taken by the central bank. However, until the debt restructuring process is finalized and there is a meaningful recovery in productivity in the mining sector, demand and supply imbalances in the foreign exchange market are likely to dictate movements in the USD/ZMW currency pair for the foreseeable future.
- Elsewhere, the US Federal Reserve ("the Fed") took a more hawkish tone than expected at their meeting in January. Recognizing that market expectations for interest rate cuts were running ahead of the central bank, Fed Chair Jerome Powell made it clear that a rate cut was unlikely in March, pouring cold water on the US equities rally that had been gathering momentum since the end of last year. While rate cuts still remain on the table, they are more likely to happen towards the back end of the year judging by recent macroeconomic data that has provided evidence that inflation in the world's largest economy remains sticky, particularly in the services sector.
- Meanwhile the outlook for other major economies in Europe remains uncertain due to growing recessionary risks as monetary policy in most of the developed world remains restrictive in order to curb inflation. With regards to China, the weak economic recovery has given rise to concerns about deflation in the world's number two economy, which has somewhat dampened the short-term outlook for industrial metals such as copper. Another major headwind to the global macroeconomic outlook is the ongoing conflict in the Middle East. This poses a major threat to global supply chains and crude oil prices that may serve to further fan global inflationary pressures, which may have a negative impact on risk assets going forward.

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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Website*: www.aflife.co.zm* ***Email****: mpile@aflife.co.zm*