



Money Acumen Advisory
Thoughtful Investing

FEBRUARY MARKET HIGHLIGHTS

Navigating Economic Shifts

MONETARY POLICY RATE REVISION

According to the Monetary Policy Committee Statement dated February 14, 2024, there has been a significant increase of 150 basis points, equivalent to 1.5 percent, in the monetary policy rate. This adjustment raises the rate from 11 percent to 12.5 percent. The decision to increase the rate stems from the observed rise in inflation, with January 2024 seeing an annual inflation rate of 13.2 percent. The statement also notes that the current inflation forecast indicates a deviation from the target range of 6-8 percent.

The rationale behind the increase in the policy rate is to curb inflation and bring it back within the target range. If the inflation forecasts continue to suggest an upward trajectory, further increases in the policy rate are anticipated.

Regarding the statutory reserve ratio, it was modified on February 5, 2024, by 900 basis points, equivalent to 9 percent. This adjustment brings the ratio to 26.0 percent from its previous value of 17.0 percent in November 2023. The reserve ratio, also known as the reserve requirement, dictates the percentage of deposits that commercial banks must keep in reserve rather than lending or investing. Set by the central bank, in this instance the Bank of Zambia, it serves as a regulatory tool for managing the money supply and controlling inflation. An increase in the reserve ratio reduces liquidity in the economy as banks are required to hold more funds with the central bank. Coupled with the rise in the monetary policy rate, this adjustment will lead to increased borrowing costs for businesses, corporations, and individuals with debt instruments such as loans and mortgages

EXCHANGE RATES

In terms of exchange rates, the Dollar has been experiencing a downward trend, signifying the appreciation of the kwacha. This trend has been evident since February 6, 2024. At the beginning of the month, the dollar was valued at ZMW/USD 27.1403 (Buying) and ZMW/USD 27.1893 (Selling), whereas it currently stands at ZMW/USD 24.4669 (Buying) and ZMW/USD 24.9522 (Selling). Other major currencies like the Pound, Euro, and Rand have also seen a similar downward movement, albeit to a lesser extent compared to the dollar.

Additionally, Vedanta Resources has disbursed the first \$25 million to Konkola Copper Mine for employee salaries, contract labor, and other essential services required to maintain the integrity of the asset. When Vedanta Resources disburses funds in dollars to KCM, these dollars may need to be converted into the local currency, the Kwacha, to pay employees, contractors, and for other local expenses. This increases the demand for the Kwacha in the foreign exchange market. Overall, this disbursement of funds by Vedanta Resources to Konkola Copper Mine has the potential to impact the demand for and value of the Kwacha in the foreign exchange market in the short term, contributing to currency dynamics and market sentiment.

The recent downward movement in the dollar may be attributed to injections of dollars into the market. However, this change may only be temporary as the demand for key imports remains high.

GRZ BONDS

On February 16, 2024, the results of the Bank of Zambia GRZ bond auction were released, indicating an under subscription compared to the expected amount to be raised.

The coupon rates remained unchanged from January's rates. All bonds, except the 10-year and 15-year bonds, were undersubscribed.

See Table Below

TENOR	AMOUNT OFFERED (AT FACE VALUE)	AMOUNT ALLOCATED (FACE VALUE)	PRICE	CUT OFF COUPON RATE
2 years	K 350.00 Mn	K 51.82 Mn	K100.00	17.00%
3 years	K 400.00 Mn	K 31.27 Mn	K100.00	20.00%
5 years	K 420.00 Mn	K 40.66 Mn	K100.00	22.00%
7 years	K 300.00 Mn	K 162.82 Mn	K100.00	23.00%
10 years	K 300.00 Mn	K 489.52 Mn	K100.00	24.97%
15 years	K 230.00 Mn	K 336.93 Mn	K100.00	26.50%
Total	K 2,000.00 Mn	K 1,113.02 Mn		

It's intriguing to note the fluctuating subscription patterns of GRZ Bonds over recent months. In February 2023, the bonds were also undersubscribed, indicating a lack of investor interest but oversubscription in both January 2024 and January 2023. As the new year approaches, investor confidence appears to increase, likely due to expectations of favorable returns and economic improvements. However, February 2024 results show a potential decline in confidence, possibly influenced by rising inflation. Examining the bond offerings, the 10-year and 15-year bonds stand out as long-term investment options, both offering higher coupon rates. Despite short-term fluctuations, long-term government bonds, particularly the 10-year bond has been the best performing bond, with the highest subscription, offering higher coupon rates and stability. This reflects investors' preference for spreading returns over longer periods and locking in attractive rates, indicating confidence in the bonds' stability despite short-term uncertainties.

The statement from the Ministry of Finance indicating that the debt restructuring Zambia is undergoing does not include government securities implies that the restructuring efforts primarily target external debt owed to foreign creditors, such as loans from international financial institutions or foreign governments.

The Securities and Exchange Commission states that the undersubscription for the GRZ bonds is due to delays in completing debt restructuring processes. In other words, investors may be hesitant to subscribe to the bond offerings because they are awaiting clarity regarding the restructuring of the debt. This uncertainty surrounding the debt restructuring may lead investors to hold back from committing their funds to the bond market until a clearer picture emerges regarding the financial situation.

Visualization of Coupon Amounts

The anticipated coupon amounts for the listed bonds are provided alongside their respective values, offering insights into which bonds yield higher returns. This may

explain investors' preference for bonds offering greater returns. It's important to note that these coupon amounts incorporate a 15 percent withholding tax and 1 percent Bank of Zambia facilitation fees.

	INVESTMENT AMOUNT				
	K 10,000.00	K 100,000.00	K 500,000.00	K 1,000,000.00	
TENOR	NET COUPONS				YIELD RATES
2 years	K 714.00	K 7,140.00	K 35,700.00	K 71,400.00	17.00%
3 Years	K 840.00	K 8,400.00	K 42,000.00	K 84,000.00	20.00%
5 Years	K 924.00	K 9,240.00	K 46,200.00	K 92,400.00	22.00%
7 Years	K 966.00	K 9,660.00	K 48,300.00	K 96,600.00	23.00%
10 Years	K 1,048.74	K 10,487.40	K 52,437.00	K 104,874.00	24.97%
15 Years	K 1,113.00	K 11,130.00	K 55,650.00	K 111,300.00	26.50%



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THANK YOU

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