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Thoughtful Investing

ZAMBIAN ECONOMY RESILIENCE AMID CHALLENGES MAY, 2024.





INTRODUCTION

In the second quarter of the year, Zambia's financial and economic landscape encountered several challenges, but demonstrated remarkable resilience in response. Some notable occurrences in May include the appreciation of the local currency, Central Bank raising the Monetary Policy Rate – a move which affects borrowing costs, inflation and overall economic activity. Additionally, the Lusaka Securities Exchange (LuSE) achieved a second milestone, some high-value stocks exhibited strong financial performance – reflecting investor confidence, and a new appointment to the Energy Regulation Board (ERB) occurred, potentially influencing energy policies and regulations.

This report will provide valuable insights into inflationary patterns and share price movements, understanding these trends is crucial for both investors and businesses. It also delves into recent bond auctions – examining demand, yields and market sentiment. Lastly, it summarizes key events during the period under review, covering relevant developments from policy changes to economic indicators and what can be expected in the foreseeable future.





EXCHANGE RATE TRENDS

The Zambian Kwacha displayed moderate fluctuations against major global currencies and the South African Rand. It's crucial to recognize that exchange rates are influenced by various economic factors. Below is a summary of the performance of the local currency against the Dollar, Pound, Euro and Rand during the period under review:

CURRENCY	BUYING (2 MAY)	SELLING (2 MAY)	BUYING (27 MAY)	SELLING (27 MAY)
USD – Dollar	26.8688	26.9188	26.7791	26.8291
GBP – Pound	33.6236	33.6889	34.1916	34.2608
EUR – Euro	28.7469	28.8112	29.0553	29.1203
ZAR – Rand	1.4398	1.4426	1.4577	1.4610

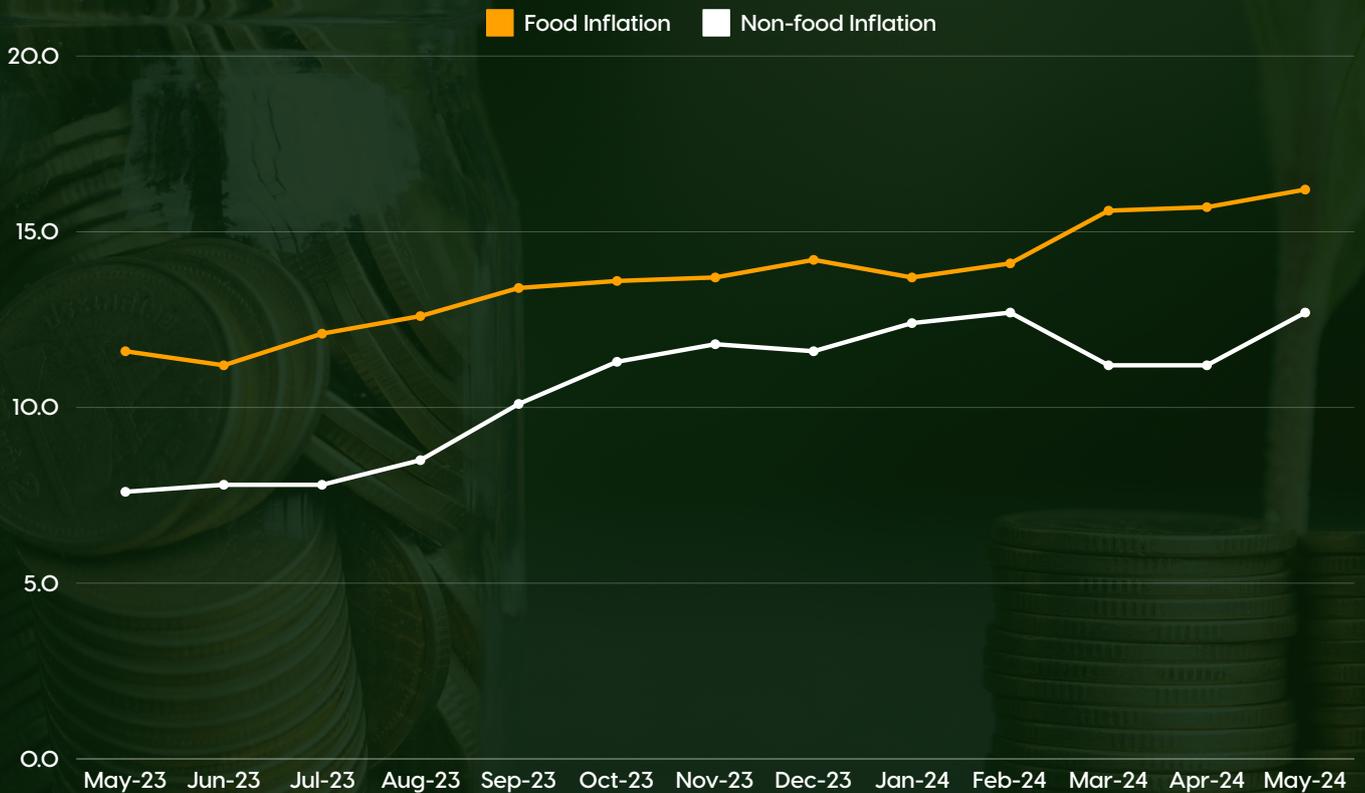
The Kwacha's movement against major global currencies directly influences trade and investment. Whether it appreciates or depreciates, this exchange rate volatility significantly impacts economic activities. Tracking these fluctuations is crucial for both businesses and investors. During the month, the Pound, Euro, and Rand exhibited a slight appreciation against the Kwacha, while the Dollar experienced a minor depreciation. These movements reflect some resilience in the local currency.

Balance Of Payments (BOP), which includes capital flows, also influences exchange rates. The BOP Statistics Release, as per the 2024 calendar, indicate that finalized data for the fourth quarter of 2023 and preliminary data for the first quarter of 2024 are scheduled for release on May 30, 2024. These reports will offer valuable insights into the trade status of the Zambian economy. In the reviewed period, there was a trade surplus of K2.4 billion - exports grew by 5.1%, primarily due to increased earnings from intermediate goods like copper while imports rose by 7.0%, mainly driven by an 18.8% increase in consumer goods imports.



INFLATION RATE TRENDS

The year-on-year inflation for May increased to 14.7% from the 13.8% recorded in the previous month. This indicates that the average prices of goods and services rose by 14.7% between May 2023 and May 2024. The change was driven by price increases in both food and non-food items. Annual food inflation for May 2024 increased to 16.2%, indicating a 0.5% increase from the previous month's 15.7%. Meanwhile, non-food inflation rose to 12.7%, marking a 1.5% increase compared to the previous month's 11.2%. Below, you'll find a depiction of the inflationary changes between May 2023 and May 2024 for both food and





MONETARY POLICY RATE VS INFLATION

Central banks are known to use various tools, which include an adjustment in their policies when inflation deviates from a specified target. The Monetary Policy Committee (MPC) raised the policy rate to 13.5% from 12.5% in response to inflationary pressures. The inflation rate which rose from 13.8% in the previous month to 14.7% was fuelled by a weakness in the local currency, rising prices in selected food items, rise in fuel prices, geopolitical tensions and prolonged tight global financial conditions. The aim of the increased policy rate is to steer inflation back to the target band of 6 – 8%.

Higher inflation is often accompanied by higher interest rates, an increase in the interest rate discourages borrowing and reduces disposable income, thus resulting in the reduction of consumer spending. Conversely, it attracts foreign capital inflows, strengthening the local currency. Lower interest rates have the opposite effect. In 2025 and 2026, average inflation is projected to moderate, owing to the expected recovery in output, declining global food prices and a more favourable external sector environment. Next year's inflation is now projected to average 9.8% from the 9.9%, as indicated in the February 2024 Monetary Policy Report.

The Monetary Policy Committee (MPC) observed that the ongoing drought has resulted in a substantial downward revision of the domestic growth forecast for 2024. The initial projection of 4.4% growth has been adjusted to 2.3% - with agriculture and energy being the most affected sectors. The ongoing drought has compelled substantial imports of staple food and electricity, resulting in a projected deterioration of the current account. If left unaddressed, these inflationary pressures could potentially destabilize the entire economy.



GOVERNMENT BOND AUCTION

Bond markets play a vital role in financing government debt, in the month of May the Government Bond auction was held on Friday 24 May, 2024 and settlement was made on Monday 27 May, 2024. Auction results were released on Saturday 25 May, 2024 reflecting a significant under subscription, in comparison to the amount that was on offer.

Tenor	Amount Offered (At Face Value) - April/May	Amount Bid (Face Value) - April	Amount Bid (Face Value) - May	Amount Allocated (Face Value) - April	Amount Allocated (Face Value) - May	Cut-Off Yield Rate
2 years	K280.00 Mn	K27.50 Mn	K16.21 Mn	K27.00 Mn	K15.71 Mn	17.0000
3 years	K320.00 Mn	K18.96 Mn	K25.84 Mn	K17.96 Mn	K24.84 Mn	20.0000
5 years	K330.00 Mn	K147.48 Mn	K161.54 Mn	K144.88 Mn	K160.84 Mn	22.0000
7 years	K240.00 Mn	K212.71 Mn	K176.49 Mn	K212.71 Mn	K176.49 Mn	23.0000
10 years	K240.00 Mn	K416.47 Mn	K255.51 Mn	K413.77 Mn	K247.01 Mn	25.0000
15 years	K190.00 Mn	K358.06 Mn	K141.22 Mn	K356.06 Mn	K141.22 Mn	26.5000
Total	K1,600.00Mn	K1,181.18Mn	K 776.81 Mn	K1,172.38Mn	K 766.11 Mn	

The 2-year, 3-year, 5-year, 7-year and 15-year bonds were undersubscribed, while the 10-year bond was moderately oversubscribed. Out of the total offering amount of K1,600.00 million, K776.81 million was received in bids. Investor demand showed a moderate decrease compared to the previous month. Investor sentiment is gauged by considering factors such as risk appetite, return on investment, investor confidence and market volatility. These sentiments influence investment decisions and the yield rate plays a significant role in driving consistent high demand for long-term bonds.



LUSAKA SECURITIES EXCHANGE PERFORMANCE

In May, the Lusaka Securities Exchange (LuSE) reached a significant milestone following its previous one in April of surpassing the K100 billion barrier in Market Capitalization, closing at K100.127 million. This impressive growth of 18.7% was primarily attributed to capital gains. The Lusaka Securities Exchange All Share Index (LASI) achieved a remarkable milestone, hitting 13,000 points on May 24th, 2024, signaling growth and success in the exchange market.

In the second week of May, Airtel made the highest contribution to turnover, accounting for 27% of the total turnover for the week, followed by Real Estate Investment Zambia (REIZ) at 26%. In terms of the volume traded, REIZ made the largest contribution, accounting for 56% of volume traded. In the third week of May, CEC Zambia continued to show consistent performance on the LuSE having made the highest contribution to the number of trades, accounting for 33% with 217 trades, followed by ZANACO at 26%.

In the month of May, share prices experienced significant fluctuations. Companies that saw an upward shift in their share price are highlighted in green, while those with a downward shift are highlighted in red. It's crucial to recognize that share prices can be influenced by various economic and financial factors, and short-term fluctuations don't necessarily indicate the overall success or failure of a company. Notably, Chilanga Cement and British American Tobacco Zambia exhibited the greatest appreciation in share price during this period.

COMPANY	PRICE (2 MAY 2024)	PRICE (27 MAY 2024)	PRICE CHANGE	% PERIOD CHANGE
AECI	40.00	40.00	-	0.00%
ATEL	43.50	43.50	-	0.00%
BATA	3.16	4.80	1.64	51.9%
BATZ	2.35	2.47	0.12	5.11%
CECZ	7.70	7.75	0.05	0.65%
CHIL	14.01	16.50	2.49	17.8%
MFIN/MAFS	1.86	1.86	-	0.00%
NATB	4.10	4.10	-	0.00%
PMDZ	4.62	4.62	-	0.00%
ZMRE	2.80	2.80	-	0.00%
PUMA	3.01	3.75	0.74	24.6%
REIZ	2.00	2.00	-	0.00%
SCBL	3.50	3.50	-	0.00%
SHOP	64.00	64.00	-	0.00%
ZMBF	2.20	2.19	- 0.01	- 0.45%
ZMBR	7.00	7.00	-	0.00%
ZAMEFA	5.01	5.01	-	0.00%
ZNCO	6.49	6.48	- 0.01	- 0.15%
ZCCM	47.55	48.00	0.45	1.00%
ZAFFICO	2.53	2.53	-	0.00%
ZSUG	35.00	35.00	-	0.00%



The total number of trades recorded on Monday 27 May 2024 was 126 with 65,591 shares transacted resulting in a turnover of K402,296.68. Share price changes were recorded in Zambia Bata Shoe Company (BATA), Zambeef (ZMBF) and Zambia National Commercial (ZNCO) Bank. Trading activity was recorded in Airtel (ATEL), Copperbelt Energy Corporation (CECZ) Plc, Chilanga Cement (CHIL), Real Estate Investment Zambia (REIZ), Standard Chartered Bank Limited (SCBL), Zambia Breweries (ZMBR) and Zambia Sugar (ZSUG). The LuSE All Share Index (LASI) closed at 13,092.03 points, 0.14% higher than its previous day close at 13,074.22 points. The market closed on a capitalization of K101.2 million including Shoprite Holdings and K66.4 million excluding Shoprite Holdings

Zambia Sugar announced a remarkable financial performance for the six-month period ended February 29, 2024. The performance was achieved through continued focus and maintenance of their implementation strategy. Following a notice from ZESCO of a 50% cut in power supply to the company, Zambia Sugar has resorted to importing power to maintain its productivity and workers. Operating profit surged by 105% to K1.34 billion, up from K656 million in the previous year and total revenue increased by 39% to K3.26 billion, up from K2.35 billion in the previous year. This increase was attributed to higher domestic sales volumes and improved export proceeds realization. Domestic sales volumes increased by 33% due to a 14% increase in sugar production. The company's financial performance is a testament to its resilience and ability to adapt to challenging market conditions. Share holders can expect continued growth and profitability in the future.

In the banking sector, ZANACO was commended for its leadership in organizing the Climate Finance Summit and its continued commitment to green initiatives. At the summit held on Tuesday 14th May, 2024 it was noted that Zambia needs approximately \$34.7 billion to fully implement its National Adaptation Plan (NAP) by 2035. The plan is aimed at enhancing resilience to climate change. Additionally, the newly launched Green Growth Strategy aiming for a sustainable and low carbon future requires \$10.4 billion and the Zambia Nationally Determined Contribution (NDC) requires \$17.2 billion for implementation by 2023. The Bank declared a dividend payment to the Government for the year 2023 worth over K131.6 million. This was done through the Industrial Development Corporation (IDC) who are a 25 percent shareholder of the Bank.

Airtel and British American Tobacco Zambia (BATZ) Plc will be paying out dividends to their respective shareholders on Friday 21 June, 2024. Airtel board of directors approved an interim dividend of K2.15 per share for the period January 1 to March 31, 2024 and BATZ following their Annual General Meeting (AGM) held on April 30, 2024 declared a final dividend of K0.15 per share for the financial year ended December 31, 2023.

The exchange market continues to show steady growth and potential for continued success. Presently, the top five most valuable stocks on the market are Shoprite Holdings (SHOP), Copperbelt Energy Corporation (CEC), Zambia Sugar (ZSUG), Zambia National Commercial Bank (ZNCO) and Zambia Consolidated Copper Mines Limited – Investment Holdings (ZCCM-IH) in that respective order. Additionally, the top three most traded stocks on the market over the past three months were Shoprite Holdings, Standard Chartered Bank Limited and CEC.



CEC RENEWABLES GREEN BOND

CEC released its Green Bond Annual Impact Report for the year 2023 which highlights the progress in implementing their solar energy projects. The company remains committed to supporting Zambia's green energy transition and to the attainment of renewable energy development ambitions. In 2023, CEC Renewables embarked on its green bond journey by registering a \$200 million tranche. Out of this, \$53.5 million was successfully issued on December 21, 2023. The purpose of this Green Bond is to support the development of two assets aimed at enhancing the solar Photovoltaic (PV) generation capacity within the Zambian electricity grid, with appropriate battery storage solutions. The issuance of the Green Bond is an integral part of the Company's sustainability strategy. The company has ambitions to generate about 300MW of renewable energy, specifically solar energy in the next 5 years, with just over 200MW expected to be funded by the existing green bond programme.

The Green Bond programme is registered with the Securities and Exchange Commission of Zambia (SEC) and listed on Lusaka Securities Exchange. CEC has adopted the ICMA Green Bond Principles (GBP) and committed to report on both the allocation of the net proceeds from the Green Bond and their environmental impact on an annual basis by way of a green impact report effective 2023. The Company currently has an installed capacity of 94MW of PV solar power with the 34MW Riverside plant commissioned in February 2023 and the 60MW Solar plant in Itimpi (Garneton area) of Kitwe District commissioned in April 2024.

The net proceeds of the Green Bond programme will be solely dedicated to financing or refinancing (in part or whole) eligible assets that provide clear environmental benefits. These assets fall under the category of Renewable Energy, collectively forming the Eligible Green Asset Portfolio. Currently the portfolio consists of existing assets (34MW Riverside and 60MW Itimpi) and the upcoming expansion of Itimpi to 180MW with possible storage. The net proceeds from the Green Bond programme first tranche of \$53.5 million is exclusively used to finance and refinance the Riverside and Itimpi solar plants valued at \$70 million once completed and operational. The balance of \$16.5 million has been funded through equity from the holding company CEC as indication of their commitment to driving the Green and Sustainable agenda of the energy industry in the country and the region. There is anticipation for the next tranche to be larger than the first.



FUEL PRICE INCREASE

The rise in the price of fuel was driven by the increase in oil prices on the international market. During the period under review, there was a noteworthy rise in the price of petrol, while that of diesel and kerosene only recorded a marginal increase. The overall increase in the price of oil was largely linked to supply uncertainty due to continued geopolitical tensions in the Middle East. Since the last fuel review in the first quarter of the year, the price of petrol, diesel and kerosene on the international market increased by 6.59%, 1.02% and 0.28% respectively. Below we can see the periodic change of retail prices between March and May 2024;

PRODUCT	PUMP PRICES K/LITRE		
	CURRENT PRICE	NEW PRICE	% CHANGE
Petrol	31.12	35.56	14.27
Diesel	28.78	29.60	2.85
Kerosene	20.44	28.39	38.89
Jet A-1	28.23	31.53	11.69

The rise in the price of oil on the international market, coupled with the depreciation of the Zambian Kwacha against the US Dollar resulted in the adverse movement in the domestic wholesale and pump prices of petroleum products. Revised fuel prices shall remain in effect until further revised by the ERB. Following the revocation of Mr. Reynolds Bowa's appointment on May 3rd, 2024, the Minister of Energy, Honourable Peter Kapala, MP, appointed Mr. James Banda as the Chairperson of the Energy Regulation Board (ERB), effective from May 6th, 2024. Before this appointment, Mr. Banda had served as the Vice-Chairperson of the ERB's Board of Directors.



INVESTRUST BANK DEPOSITORS PAYOUT

In the preceding month, the Bank of Zambia (BoZ) made an announcement regarding depositors of Investrust Bank. These depositors would gain access to their funds through Zambia Industrial Commercial Bank (ZICB) and ZANACO branches across the country between April 26 and May 10, 2024. Notably, ZICB disbursed over K30 million to depositors of the non-operational Investrust Bank, utilizing a portion of the K470 million allocated to the bank by the Bank of Zambia.

During a media briefing on May 2, 2024, David Phiri, the head of retail banking at ZICB, announced that approximately 300 depositors with balances ranging from a minimum of K30,000 to a maximum of K500,000 out of the 3,300 depositors assigned to the financial institution had received their payments. Since the commencement of this process, ZANACO had disbursed over K16 million to Investrust depositors whose balances were up to K30,000. The payout of Investrust Bank depositors which was scheduled to end on Friday 10th May was extended to Friday 17th May, 2024 to accommodate depositors who had not yet claimed their funds. The resolution plan is expected to be completed by end June 2024.





CONCLUSION

Despite the numerous challenges faced, the Zambian economy remains remarkably resilient. Exchange rate movements have shown the local currency's resilience against major global currencies. However, investor demand for Government bonds experienced a significant decline. On a positive note, the Lusaka Securities Exchange (LuSE) achieved noteworthy growth and success, hitting two significant milestones recently. Several companies in the stock market contributed to the turnover and demonstrated robust financial standing within their respective industries. Additionally, CEC released its annual impact report on the green bond, while ZANACO received commendation for its excellent leadership qualities.

Amidst Zambia's power cuts resulting from low water levels in hydropower plants, solar energy emerges as a transformative solution. During power outages, forests bear the burden due to heightened charcoal consumption. Investing in solar power plants can significantly improve the strain on Zambian forests. In response to a 50% power cut supply affecting Zambia Sugar, the company has opted to import power. Additionally, fuel prices have risen due to an overall increase in international oil prices.

These developments, among others reflect both challenges and opportunities in Zambia's economic and financial landscape. As investors and policymakers navigate these changes, monitoring market trends and policy decisions remains vital.



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