Zambia Market Watch

29 June 2022

GMT	Country	International and Local Data	Period	F/c	Previous
-	ZM	No data			
1:00	US	MBA mortgage applications	Jun 24		4,2%
12:00	GE	CPI y/y	Jun P	7,9%	7,9%
12:30	US	GDP q/q annualised	1Q T	-1,4%	-1,5%
12:30	US	Personal consumption	1Q T		3,1%

Factors overnight	What happened?	Relevance	Importance	Analysis
UK shop prices	British retailers raised prices by the most since 2008, according to data from the BRC. Average prices were 3.1% higher than a year ago and accelerating	Food prices, in particular, were accelerating upwards and averaged 5.6% higher y/y	4/5 (economy)	Any monetary policy action will have a lagged effect on prices. At the moment, underlying momentum remains strong and will only reverse much later in the year as base factors exert influence
ECB bond market remarks	Spreads between periphery countries and Germany tightened after an ECB policymaker said the Bank should offer unlimited support to EZ members facing an unjustified rise in borrowing costs	This would amount to unlimited ECB QE programmes to contain bond yields as fiscal positions deteriorate	5/5 (monetary policy, markets)	The pandemic was unkind to government fiscal positions; similarly, the war and the consequences for inflation and interest rates have not helped. Clearly, this is becoming a point of concern for investors and the ECB
NATO expansion	NATO and Turkey have come to an agreement that will allow the organisation to admit Sweden and Finland in a move that will offer protection to the Nordics and up the ante for Russia	Russia's actions in Ukraine have led to the very outcome it has sought to prevent and, in the process, raised tensions	5/5 (geopolitics)	This powerful geopolitical move will ensure that Russia cannot invade other countries without feeling the full force of NATO. This comes alongside the build-up of troops which will further build defences against Russian aggression
Factors on the radar	**What happened?**	**Relevance**	**Importance**	**Analysis**
G7 oil price cap	The G7 has agreed to look into the possibility of a price cap for oil agreed to by all countries banning the purchase of any oil above a particular price	While it is aimed at curtailing Russia's revenues, it could also generate scarcity in the market	4/5 (economy, market, geopolitics)	Energy producers will need to accept lower prices despite high levels of demand and may become reluctant to do so at prices they do not deem to be a fair reflection of market value
Fedspeak	San Fran Fed President Daly and NY Fed President Williams both supported further bold rate hikes to curb inflation but pushed back against recession expectations	From the two speakers, the debate at the next FOMC will likely be between a 50bp and 75bp hike	4/5 (monetary policy)	The Fed remains committed to reigning in inflation, and the communication in favour of tightening remains strong and unambiguous. The real economy is already starting to respond
GBP and Brexit	The GBP is not expensive relative to other major currencies but still came under some pressure vs the USD yesterday as Brexit concerns escalated once more	Britain unilaterally began the process of changing the trading protocol in N Ireland and angered the EU	4/5 (market, geopolitics)	Britain's move will be challenged in the courts and again highlights some of the real economic costs of splitting from the EU. Retaliation from the EU would be unwelcomed and growth negative

Local Market Commentary and rates

	BANK BUY CASH	BANK BUY TT	BANK SELL TT	BANK SELL CASH
USDZMW	17.0033	17.0046	17.3455	17.3468
GBPZMW	20.7168	20.7183	21.1337	21.1353
EURZMW	17.8390	17.8403	18.1980	18.1993
ZARZMW	1.0576	1.0577	1.0789	1.0790
BWPZMW		2.0890	2.1309	
AUDZMW		11.7076	11.9423	
JPYZMW		0.1251	0.1276	
CHFZMW		17.7760	18.1324	
TZSZMW		0.0072918	0.0074380	
MWKZMW		0.0167	0.0170	
KESZMW		0.1444	0.1472	
INRZMW		0.2154	0.2197	
DKKZMW		2.3983	2.4464	
NOKZMW		1.7236	1.7581	

FIXED INCOME MARKETS - clearing yield at last auction			
91 Day T-Bill	9.3001	2y Bond	17.5000
182 Day T-Bill	10.4000	5yr Bond	22.5000
273 DayT-Bill	12.0000	7yr Bond	24.5000
364 Day T-Bill	14.4999	10yr Bond	25.2500

BANK OF ZAMBIA DAILY STATISTICAL RELEASES	
Policy Rate	9.0%
O/N Lending facility	25.00
Banks' aggregate current account balance	K6,385.38M

INDICATIVE FORWARD ZMW PRICING			
	Mid		Mid
1m	17.3846	6m	19.0049
2m	17.6546	9m	20.2445
3m	17.9952	12m	21.2639

- Reports citing a document seen by Bloomberg suggest that Mopani Copper Mines Plc, which Glencore Plc sold to a Zambian government-owned company last year, faces electricity cuts over unpaid bills. Mopani Copper Mines was earlier this month notified by Copperbelt Energy Corp of plans to limit supply because of unpaid invoices of more than $20mn. The power cuts are set to commence this week. The latest development further raises the urgency that the Zambian government needs to seek solutions for Mopani, which has struggled to pay bills even during a period of record prices for copper. Earlier this month, Mopani said it had hired Rothschild & Co. South Africa to carry out a strategic review of the operation, which needs about $300mn investment to complete expansion projects that Glencore began. Meanwhile, the government has been trying to find an equity investor for Mopani.
- Copper prices fell again yesterday, along with most base metals, after new US data showed that consumer confidence has slumped to a 16-month low. Even though this may suggest a higher probability of the Fed easing off from its aggressive tightening, it is always difficult for copper to rally when equities are selling off. Copper prices fell by 0.6% on the day yesterday and remain offered this morning, down a further 0.42% ahead of the European open.
- Providing some support to the base metals complex this morning is the news that China has cut its quarantine period for inbound travellers to 10 days from three weeks. Although this has provided some support for base metals, prices have not yet bottomed out and are expected to remain under pressure despite the latest recovery given elevated global recession fears.
- As Q2 draws closer to an end, it is worth taking stock of the performance of the Southern Africa FX complex. With the exception of the Zambian kwacha, currencies in the region have broadly weakened against the USD on a quarter-to-date basis. For context, the Mozambican metical (-0.18%), Botswana pula (-6.64%), and South African rand (-8.94%) have all recorded losses. A combination of external and idiosyncratic developments has weighed on these currencies. Externally, lockdowns in China, high input prices, supply-side bottlenecks, demand-side inflation, tightening US monetary policy, and its impact on global growth and a stronger dollar, which has gained almost 7% on a QTD basis, have pressured currencies in the region.
- The rand and pula have notably underperformed. External developments have significantly affected the former, while load shedding, floods and port blockages have added downside pressure. However, it is worth flagging that our in-house sentiment indicator is pointing to a strong rand performance through H2 2022 that should offer importers another opportunity to lock in more attractive forward rates. The rand still remains attractive on a carry basis and is undervalued against the USD and EUR, while a weak economic backdrop suggests current account surpluses will remain in the near term. The metical, meanwhile, has recorded modest losses with renewed militant attacks in the northern region denting sentiment. While the metical has come under pressure recently, we see support for the currency emanating from positive policy reform, prudent fiscal policy, and management from the government in the medium term. In addition, capital inflows into the LNG sector will provide a massive boost to the country's fiscus and should support Mozambique's terms of trade over the long term.
- Meanwhile, the kwacha has not only outperformed its regional peers but has been Africa's best-performing currency in the period under review. Positive sentiment amid rising investor confidence in the economy and some support from the central bank through interventions and credit talks have provided tailwinds to the currency. Going forward, whether the kwacha can meaningfully appreciate further in the coming months will hinge on how soon debt restructuring can occur. Striking a deal with all of Zambia's creditors, chief among them China, could take longer, raising the risk of further delay from the anticipated timelines on which a deal with the IMF rests.
- Yesterday the USD appreciated against the majors. Between Brexit developments holding back the GBP and ECB board members talking of utilising endless QE to contain any runaway surge in bond yields, the USD found itself on a firmer footing vs these two major currencies. Furthermore, the recent rise in bond yields, together with the retreat on Wall St and fears of a global slowdown, also impacted risk appetite to help the USD index to firmer levels. Whether the USD's gains are sustainable amid this morning's retreat in bond yields will be tested today, with the 10yr UST yield dipping back to 3.13%. Most currencies continue to use the USD's movements as their compass. The EUR-USD has dipped slighty back towards 1.0500, while the GBP-USD is trading back below 1.2200 this morning. Equally, the JPY is also on the defensive as the BoJ rejects calls to tighten, helping the JPY back up to 136.00/dlr.

ZAR and Associated FX Commentary

- Stage 6 load shedding is a major blow to the economy. That is the greatest constraint on electricity production since 2019 and again highlights the many challenges that the SA economy faces. Eskom has blamed this on an illegal strike through the vulnerable winter months when seasonal demand is proportionately higher. Disgruntled employees held the country to ransom in a bid to secure a better wage result. However, in the process, they left the grid vulnerable and the country struggling with further headwinds when high inflation and rising interest rates are already exerting recessionary forces on the global economy.
- It was not surprising to see the ZAR under pressure on this announcement, and equally, there is likely to be some relief expressed this morning as Eskom workers come back to work and normal wage negotiations resume. South Africans will soon learn whether the illegal strike was the main cause of Eskom's load shedding or simply poor maintenance and unplanned breakdowns as power stations run beyond their limits to keep up with demand. Any easing of load shedding will likely trigger a ZAR recovery of sorts.
- Still nothing much in the way of material data other than the BER consumer confidence data for Q2 to focus on. That will keep investors a little more cautious as they await the slew of data scheduled for release on Thursday and Friday this week. Although economic data has not been the main driver of ZAR direction, the sheer number of data scheduled for release always offers something to look out for.
- Finally, it is also worth pointing out that although there was much focus on the Stage 6 load shedding yesterday and the depreciation in the ZAR, it all coincided with a bout of USD strength. However, whether the USD's appreciation remains intact is questionable, with US Treasury yields retreating overnight and this morning. Again, the focus has turned to the growth outlook and the rising risk of a significant slowdown which might ultimately curtail how much tightening the Fed eventually implements. Any retreat in the USD could see the ZAR trading back below the 16.00 handle without much trouble.

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