Zambia Market Watch

8 July 2022

GMT	Country	International and Local Data	Period	F/c	Previous
-	ZM	Nothing scheduled			
11:55	EC	ECB's Lagarde Speaks			
12:30	US	Change in nonfarm payrolls	Jun	275k	390k
12:30	US	Unemployment rate	Jun	3,6%	3,6%
14:00	US	Wholesale inventories m/m	May F	2,00%	2,00%
14:00	US	Wholesale sales m/m	May		0,7%

Factors overnight	What happened?	Relevance	Importance	Analysis
UK Politics	PM Johnson stepped down as PM yesterday after his cabinet ministers resigned en masse to leave him with no alternative	GBP bounced as a result to reflect relief that some stability might return	5/5 (politics)	One too many scandals and a combative approach that alienated many, alongside Brexit problems in N Ireland, proved too much to ignore
Fed speak	Two Fed speakers in Fed Governor Waller and St Louis President Bullard, both supported calls for a further 75bp hike at the next meeting but to slow the pace of tightening after that	Much of this is priced in. What happens after the next meeting will determine whether markets readjust	4/5 (monetary policy)	With the market so fully priced, any indications that the Fed might scale back tightening faster than expected could impact the USD, stocks, and the yield curve. Investors are actively questioning the hawkish stance
EUR slide	The EUR has remained on the defensive this morning as investors continue to focus on policy divergence between the Fed and the ECB	This leaves the ECB with some difficult choices as a weaker EUR will only compound inflation	4/5 (markets, monetary and fiscal policy)	The weakness in the EUR now reflects the impact of war and the negative growth effects it has exerted across the region, including the heavy burden it has imposed on fiscal policies
Factors on the radar	**What happened?**	**Relevance**	**Importance**	**Analysis**
Chinese stimulus	China's finance ministry is considering allowing local governments to sell $220bn worth of special bonds in H2 2022 in a bid to boost GDP	The stimulus efforts will be cheered around the globe as China is an influential economy	4/5 (fiscal policy, economy)	Against the backdrop of rapidly tightening monetary policies, this is some growth positive news that may assist market sentiment and risk appetite heading into the weekend
BoE Speak	According to BoE policymaker Catherine Mann, central banks should be moving more rapidly to raise interest rates or risk persistent inflationary pressures	If pushed too far, the hawkish talk will drive a major correction in markets and induce major instability	4/5 (central bank)	Instability in financial markets is not always conducive to restoring price stability, other than through cratering demand which in itself is not the most productive approach
US labour market	Today, the latest payrolls data will be released and will be influential following yesterday's rise in jobless claims and layoffs	A tight labour market has contributed to inflation, so any softening is key	5/5 (economy)	The outcome could well erode the USD if the data misses expectations and highlights a turn in the cycle towards weaker labour market dynamics

Local Market Commentary and rates

	BANK BUY CASH	BANK BUY TT	BANK SELL TT	BANK SELL CASH
USDZMW	16.2360	16.2373	16.5627	16.5640
GBPZMW	19.4905	19.4921	19.8827	19.8843
EURZMW	16.4812	16.4825	16.8128	16.8141
ZARZMW	0.9690	0.9691	0.9885	0.9886
BWPZMW		2.0476	2.0886	
AUDZMW		11.0738	11.2958	
JPYZMW		0.1198	0.1222	
CHFZMW		16.6648	16.9987	
TZSZMW		0.0069628	0.0071024	
MWKZMW		0.0159	0.0162	
KESZMW		0.1375	0.1402	
INRZMW		0.2049	0.2090	
DKKZMW		2.2151	2.2595	
NOKZMW		1.6071	1.6393	

FIXED INCOME MARKETS - clearing yield at last auction			
91 Day T-Bill	9.3001	2y Bond	17.5000
182 Day T-Bill	11.5001	5yr Bond	23.5000
273 DayT-Bill	12.9999	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	K6,446.37M

INDICATIVE FORWARD ZMW PRICING			
	Mid		Mid
1m	16.5631	6m	18.0889
2m	16.8266	9m	19.2791
3m	17.1312	12m	20.2232

- Zambia's Markit/Stanbic bank PMI was little-changed in June, coming at 49.9 from 49.8 in the month prior. This signalled broadly stable business conditions over the course of the month. Survey results from Markit showed that while price pressures and money shortages acted to dampen demand at some companies, leading to output and new orders to decrease, others reported having been able to secure new customers. There were signs of inflationary pressures easing while firms continued to expand their employment levels and purchasing activity. Meanwhile, hopes that economic conditions will remain stable helped to support new order growth and contributed to optimism about the year ahead outlook for business activity. That said, sentiment dipped slightly from May. While business conditions remained broadly stable in June, the recent fuel price hikes could impact business conditions going forward.
- The Ministry of Finance and National Planning yesterday reported that Zambia's total public debt (public debt and publicly guaranteed debt) stood at $25.98bn at the end of March. Meanwhile, central government external debt was $13.2bn, and guaranteed and non-guaranteed state-owned enterprise loans amounted to $1.5bn and $117.18mn, respectively. The domestic debt burden amounted to $11.15bn. The increase in the debt stock was attributed to disbursements from multilateral creditors. Finally, external debt-service arrears were $2.53bn by the end of March. Meanwhile, Zambia has tabled new sovereign debt law following the recent default on loans. The proposed legislation submitted to lawmakers provides for the raising of loans and the approval thereof by the national assembly. Moreover, the law also calls for the establishment of sinking funds and a debt management office.
- Meanwhile, Commissioner-General Dingani Banda yesterday reported that the Zambia Revenue Authority surpassed its collection target by 4.6%. Specifically, the revenue authority collected ZMW48.3bn in next taxes from January through June, compared with a target of ZMW46.2bn. Meanwhile, ZMW 56.4bn was collected in gross taxes, and refunds stood at ZMW8.1bn. According to Banda, the surplus was mainly due to a strong performance of direct taxes from higher copper prices.
- In an extensive interview with Bloomberg, Akinwumi Adesina, President of the African Development Bank, said that African countries require $424bn this year to help them cope with the devastation caused by the coronavirus pandemic. Adesina was quoted as saying, "We should not minimize the impact of the coronavirus pandemic on African economies. We have to expand the fiscal space for African countries. Secondly, we must tackle the whole issue of debt. You cannot run up a hill while carrying a backpack of sand on your back." On the International Monetary Fund's reserves, Adesina acknowledged that while special drawing rights have helped, "Africa still needs to have $150bn channelled to it." Regarding the continent's debt burden Adesina said, "A lot of the debt in Africa is infrastructure-related debt, but if we are able to get a sustainable way to do this, that would be much better. That sustainable way is that the private sector has to have a role, it shouldn't just fall on the government."
- Moving over to the US, the June jobs reports report headlines the data card. The addition of employed workers in the US is likely to have continued to slow in June, as demand may be cooling amid high inflation and surging wages, while supply remains tight with the unemployment rate at just 3.6%. Consensus expectations are for the labour market to have added the fewest number of jobs since April 2021, although this should keep the jobless rate at May's level and at post-pandemic lows. The data, however, may not be too market moving unless we see a massive miss, given that the Fed is intent on hiking rates to calm inflation, shifting its focus away a bit from the labour market for now.
- In the FX markets, the Zambian Kwacha will likely continue to hold steady next week as corporates gather local currency liquidity to pay taxes. Meanwhile, ahead of the non-farm payroll data this afternoon, the USD has consolidated its position and remained strong. It continues to be supported by policy divergence between the Fed and the ECB, BoE and BoJ. Equally, Fed speak of more tightening to come only served to reinforce the point and raise the significance of the data this afternoon. Yesterday's weekly jobless claims in the US showed some signs of a softening in the labour market. Any further indications that this is the case in the payrolls data and the USD may enjoy some correction weaker after a very strong week. For now, the EUR-USD continues to trade below 1.0150, while the GBP continues to trade around 1.2000. The JPY enjoyed some safe-haven support after former PM Abe was shot, but not enough to reverse the trend of JPY weakness against the USD.

ZAR and Associated FX Commentary

- Into the week's final trading session and the volatility might extend a little further as investors turn their attention to the upcoming US payroll data. A tight labour market in the US has been part of the mix of developments that have driven inflation higher as it bolstered wage settlements. The Fed has responded and, judging by the Fed speakers yesterday, is bound to do more. At least another 75bp at the next meeting, followed by smaller incremental rate hikes after that.
- Policy divergence remains a prominent feature of the currency markets, with the USD benefiting from the inability of the ECB and the BoJ to do much. The rotation to USDs is affecting the crosses and keeping a USD bid alive. Speculative activity, as reflected in the latest CFTC data, also continues to support the USD, and it would require a significant softening in US data and a reversal of expectations to change this dynamic. That might unfold over the medium term, but a lot would need to change. Today's US non-farm payrolls are unlikely to be enough.
- Other international factors to consider, include China's shift towards more stimulus as it allows local governments to borrow $220bn to shore up their economies. There are also signs of softening their stance against Covid, implying fewer disruptions. Although good news for SA that one of its main trading partners is stimulating, it will only affect trading dynamics on the ZAR at the margin.
- Finally, it is worth noting that the authorities have stepped in to stop truck protests as the authorities do everything in their power to avoid another repeat of the riots that broke out around this time last year. There are also indications that a special investigative unit is actively looking to prevent sabotage at Eskom and Transnet. Steps have been taken to increase the security to assist these SOEs in remaining functional. Although bad news that this is even necessary, it is a relief that action has been taken. Whether that is enough to encourage the ZAR to make a recovery is unclear, especially ahead of the payroll data this afternoon. For now, consolidation at these weaker levels seems plausible.

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