

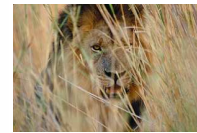


# FINANCE BANK

MAY 19, 2008

## TREASURY MARKET REPORT

TMR 04 / 05



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WEEK CAPTIONS	QUOTE OF THE WEEK	FBZ BUSINESS NEWS
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- ◆ Zambia has applied for a soft loan of US\$80 million from Exim Bank of India for the upgrading of the Itzhi-Tezhi hydro power station.
- ◆ A Saudi Arabian investor has expressed interest to construct two five-star hotels in Lusaka and Livingstone.
- ◆ Kenya Airways resorts to bulk buying of fuel to mitigate the challenges of high fuel prices.
- ◆ The projected additional revenue collections of US\$415 million from the mining industry for this year may not be achieved because of power outages

*"Signs of more general inflation pressures will justify a decisive policy response, lest the impressive gains in global stability attained in recent years be sacrificed. But global inflation is back after a prolonged period of stable prices and policy makers should act aggressively if things start to get out of hand."* John Lipsky, IMF deputy managing director.

Credit Suisse, one of the world's largest global investment banks has acquired 40 percent equity in Finance Bank Zambia Limited.

### FOREX MARKET

After several weeks of continued appreciation, the ZMK posted a marginal depreciation of 0.6% last week. On Monday, the ZMK opened trading at 3380 and 3400 for buying and selling against the USD on the inter-bank market. It then rallied to 3300 and 3320 levels by close of business on Tuesday before starting to weaken on Wednesday. The reversal in the market trend was driven by increased demand for US Dollars on the inter-bank market in what appeared to be position covering and profit taking by some market players.

The ZMK went on to close the week at 3400 and 3420 levels with an overall depreciation of 0.6% during the week. Over the last few weeks, the local currency has been on a bullish path with Dollar supply outweighing demand for it. Since the announcement of the Celtel IPO, the market has seen unprecedented Dollar supply on the market.

#### Outlook:

*Barring external factors, the ZMK is likely to stabilize as market players trade cautiously and as they seek the cue for the local currency's next direction.*

### MONEY MARKET

#### INTERBANK

Yields in the Interbank market remained relatively stable last week. Banks were able to square positions at an average of 10.50% with aggregate demand found at K96.1 billion on Friday.

The central bank continued mopping excess liquidity from the market by offering REPOS with tenors ranging from 7 to 90 days. A total of K90 billion was secured through the OMO window on Wednesday. K219 billion was the total for the week.

**Outlook:** *Yields may appreciate marginally.*

#### TREASURY BILLS

Participation at the treasury bill auction was last week affected by the bond auction on Friday. Investors showed greater appetite for the longer dated bonds.

Of the ZMK 100 billion sought by the central bank, total bids amounted to K87.4 billion. K77.7 billion was allocated.

The 182,273 and 364 days tenor posted a marginal decline in yields. However, the 91 days issue posted marginal gains.

**Outlook:** *stable yields expected.*

### CAPITAL MARKET

#### THE EQUITY MARKET

A total of 4,910,116 shares were transacted in 153 trades resulting in a total turnover of K8.09 billion. The all share index closed at 3,880.76 points down by 0.82% from 3,912.72 points week ending 9 May 2008. British American Tobacco, BP Zambia and Cavmont Capital Holdings lost K1.00 each closing at K2,000, K800 and K10.50 respectively. Transactions were also recorded in AEL Zambia, CEC, Farmers House, Standard Chartered Bank and Zambeef Products.

#### GOVERNMENT BONDS

The monthly treasury bill auction attracted bids worth K107.1 billion. The central bank was in the market looking to secure K120 billion on behalf of the government.

BoZ managed to secure K91.2 billion as the market continued to show appetite for the longer dated assets. The benchmark 2 years bonds closed marginally higher at 14.65% from last months yield of 14.62%.

**Outlook:** *Stable yields.*

#### MARKET INDICATORS

FOREX	3400/3420	
INTERBANK	11.00%	
T-BILLS	11.95%	
BONDS	14.65%	
INFLATION	10.10%	
<b>FBZ</b>	<b>ZMK</b>	<b>US\$</b>
BASE RATE	19.0%	10.5%

<b>DEPOSITS</b>	<b>ZMK</b>	<b>US\$</b>
SAVINGS	3.0%	0.2%
24 HR CALL	3.0%	0.2%
1 MTH	3.5%	0.6%
3 MTH	6.0%	1.2%

TERMS & CONDITIONS APPLY



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**Cross Currency:** A pair of currencies traded in forex that does not include the U.S. Dollar. One foreign currency is traded for another without having to first exchange the currencies into American Dollars.

## KEY INDICES

T-BILL	RATES
91 DAYS	11.9526%
182 DAYS	13.2583%
273 DAYS	13.3118%
364 DAYS	13.6437%
BOND YIELD	RATES
2 YEARS	14.6532%
3 YEARS	15.4808%
5 YEARS	16.3094%
7 YEARS	17.2609%
10 YEARS	18.4069%
15 YEARS	19.2547%

CROSS	RATES
EUR / USD	1.5575 / 1.5579
GBP / USD	1.9578 / 1.9583
USD / JPY	104.02 / 104.08
USD / ZAR	7.4530 / 7.4950

LIBOR	RATES
1 MONTH	2.47875
2 MONTHS	2.60813
3 MONTHS	2.69500
6 MONTHS	2.88625
1 YEAR	3.08125

ECONOMIC	TARGETS
INFLATION RATE	9%
GDP GROWTH	7%
DEBT / BORROW-	1.2% GDP

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## Strong copper exports to fuel Zambia growth

Zambia's economy was likely to expand by 7% in 2008, with growth rising to 10% in 2010 on higher Copper exports. The country's first credit rating should be finalized by the end of 2008, as the southern African country was currently evaluating bids for the transaction advisor. But Zambia, which counts Copper as its main export, would not issue any bonds because the country had enough liquidity.

The government was upbeat about the nation's ability to rein in inflation below double digits, if it could control food and imported inflation half the battle was won. Food contributed 57% to the country's consumer price index. Zambia, where about two-thirds of the population lives on less than \$1/day, was not affected by the global food price crisis and even had enough food for exports.

## INTERNATIONAL NEWS

## 1. CURRENCIES

## ■ U.S DOLLAR

The Dollar fell last week Friday as a plunge in U.S. consumer confidence raised concerns about an economic contraction in the second quarter and trimmed the chances the Federal Reserve will raise interest rates this year. The Euro raced to a session peak of \$1.5600. It was last trading up at \$1.5589. The Dollar tumbled to an intraday low of 103.54 Yen and was last quoted down at 104.18 yen.

## ■ GBP

The Pound fell versus the Euro last week Friday as investors were worried by the combination of high inflation and slowing growth in the U.K. economy. The Euro was up at 79.54 pence. The Pound was steady at \$1.9467.

## ■ RAND

South Africa's Rand firmed to an 11-week high against the Dollar last week Friday, boosted by improved risk appetite on world markets, while stock markets also edged higher. The Rand was trading at 7.4750/Dollar.

## COMMODITIES

## ■ COPPER

Copper futures closed up more than 2% last week Friday, hitting 9-day highs, after sharp gains in metals and almost all commodities on the back of a weaker Dollar. July Copper delivery settles up at \$3.8265/lb. LME 3-month was at \$8,420.00/tonne.

## ■ OIL

Crude Oil futures rose last week Friday, settling above \$126 for the first time, fueled by Goldman Sachs raising its second-half 2008 price forecast, the weakening Dollar and concerns over tight supply. June Crude rose at \$126.29/barrel. July Brent Crude rose to settle at \$124.99/barrel.

## ■ GOLD

Gold futures ended 2.3% higher at just below \$900/ounce last week Friday on the back of a Dollar slump and solid Crude Oil gains amid a broad commodities rally. The June Gold contract settled up at \$899.90/ounce. June futures briefly soared earlier to a 3-week high at \$905.60 which was well above the session low at \$880.50. Spot Gold at \$899.55/900.95 an ounce. The London afternoon Gold fix at \$897.

## 3. DIARY

Friday, May 30<sup>th</sup>

**FRANKFURT:**  
ECB Governing Council member Axel Weber opens a symposium to mark the 10th anniversary of the ECB.

Sunday, June 1<sup>st</sup>

**FRANKFURT:**  
10th Anniversary of the founding of the ECB.

Monday, June 2<sup>nd</sup>

**FRANKFURT:**  
Ceremony to mark 10th anniversary of the ECB.

Tuesday, June 3<sup>rd</sup>

**PARIS:**  
OECD Forum 2008. 'Reform to Perform - Towards a more prosperous, stable and sustainable future' and Climate Change, Prosperity and Stability.  
**JOHANNESBURG:**  
National Automobile Manufacturers Association releases May new vehicle sales data.

*(Source: Reuters, Financial Times LUSE & BOZ) Every attempt has been made to ensure that the information provided is accurate. However, Finance Bank Zambia Limited and its employees cannot be held responsible for any errors and no liability is accepted for any losses which may arise from the use of this information.*