

Macro Update: Zambia

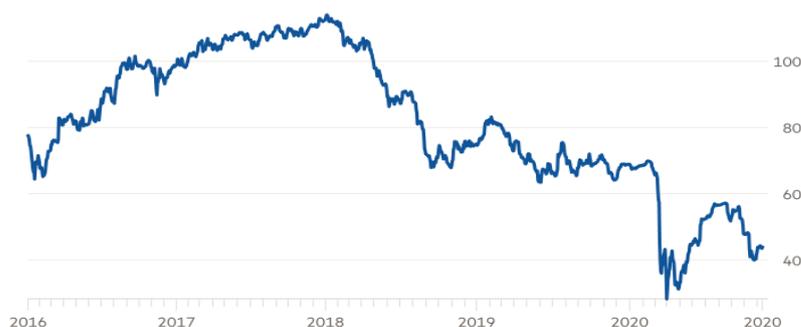
November 2020

- In mid-November, the government defaulted on a \$42.5 Eurobond repayment making Zambia the first economy to crumble under its debt burden during the pandemic.
- Fitch has downgraded Zambia to Restricted Default and is no longer providing ratings on the country's remaining Eurobonds.
- The remainder of privately held Zambian debt is under threat though payments to development organisations are likely to continue. Defaulting on the World Bank would jeopardise the ruling party's hopes at being returned in next year's election. Private bondholders such as Ashmore Group are considering legal action which is likely to be a repeat of the debacle surrounding Argentinian debt.
- The Zambian Central Bank has left its base rate unchanged at 8%. The country's currency, the Kwacha, has lost a third of its value versus USD. Inflation is roughly 16%. The government appears to be pressuring the central bank into money printing. If successful, expect hyperinflation.
- Chaos in Zambia will spill over into the remainder of Sub-Saharan Africa. This will

- Tensions are rising. Most of the country's youth are unemployed and there is a sense that regardless of Covid, this situation is President Lungu's fault so much so that a cover of Kenny Rogers's 'Coward of the Country', in reference to Lungu, has become a hit. The violence that has wracked Zimbabwe next door could soon erupt in Lusaka.

Zambia's international debt is trading at deeply distressed levels

Price (cents on the US dollar)



US-dollar bond maturing in July 2027

Source: Refinitiv
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Data: Financial Times

Exposure

The most extreme left tail event is a total default on government debt. This will not happen before the election in August 2021. Expect further defaults on the remaining Eurobonds. Zambia's reputation is in tatters so there is no downside to further defaults on privately held debt.

China will likely use this opportunity to further expand its Belt and Road initiative by extending significant amounts of credit to Zambia at the 11th hour. Infrastructure assets will be used as collateral. As Zambia is one of Africa's largest copper producers, this will cement China's control of the world's copper supply chain.

Commodities 1 mo. Δ (bps)

WTI Crude	+2668
Brent Crude	+2619
OPEC Basket	+2819
Gold	-470
Silver	-520
Platinum	+16.3
Copper	+1283
Corn	+845

Currencies

USD/EUR	-252
USD/JPY	-40
USD/CNY	-17
GBP/USD	+308
EUR/GBP	+333
CNH/CNY	+17

10Y Bond Yields

US	-387
GB	+1609
Germany	+905
Italy	-1186
Japan	-2858
China	+323

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